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A JOURNAL
OF REPARATIONS



FIRST MEETING OF THE REPARATION COMMISSION WITH THE FIRST COMMITTEE OF EXPERTS,
ASTORIA HOTEL, PARIS, JANUARY 14, 1924

Reparation Commission (seated) — left to right : Signor Alberto Corsi — Marquis Salvago Raggi — Mr. Arthur Nichols Young —
Mr. James Logan — M. Louis Barthou — M. Maucelère — Sir John Bradbury — Mr. Kemball Cook — M. Leon Delacroix — M. Camille Gutt
Committee of Experts — 1st row standing — left to right : E. Francqui — A. Pirelli — E. Allix (behind) — Owen D. Young — Charles G. Dawes
J. Parmentier — F. Flora — J. C. Stamp — R. M. Kindersley — H. M. Robinson
Behind Mr. Dawes — left to right : A. McFadyen, General Secretary — M. Denis, Assistant Secretary

A JOURNAL OF REPARATIONS

BY

CHARLES G. DAWES

CHAIRMAN, FIRST COMMITTEE OF EXPERTS,
REPARATION COMMISSION

FOREWORDS

BY

LORD STAMP

H. BRÜNING

WITH ILLUSTRATIONS

&

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Charles E. Hughes, Secretary of State

APPENDIX II

Various letters and telegrams relative
to the work of the Expert Committees

APPENDIX III

Official Report of Expert Committees
as submitted to the Reparation Commission

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PREFACE

FOURTEEN years have now passed since the plan outlined in the report of the First Committee of Experts Reparation Commission was put into effect, and nine years since the ending of its five years of successful operation.

It resulted in removing the impasse in German economy created by the occupation of the Ruhr by the French army, in the re-establishment of German economy, currency and credit, and the payments on reparations for five years which the Committee had pronounced within the capacity of Germany to pay. It changed for the better, at least for a period of years, the condition of Europe.

Selected by the Reparation Commission as Chairman of the First Committee of Experts, I kept a journal during the progress of its work. This could not properly have been published during the years of international interest in and discussion of the experts' plan—indeed I publish it now with some hesitation, for I fear my appraisal at the time of the individual contributions to a group effort of ten men does not do full justice to them all.

These contemporaneous notes constantly refer to incidents which are personal and irrelevant to their main subject—the First Committee of Experts. I have not omitted these references because I want to preserve them for my family, and because in a general way they indicate the environment and atmosphere in which the work was carried on.

In the Appendix there are inserted letters and telegrams relative to the progress of the completed plan after I had left Europe. Some of these relate to situations after its ratification by the nations concerned and the beginning of the work in Germany under the methods prescribed by the plan.

It will be noted in the Appendix that President Coolidge wrote to me on April 21st, 1924: "You and your associates represented not the Government but the American mind".

Included in the Appendix are reports sent to me by my brother, Rufus C. Dawes, from Berlin, where, with Henry M. Robinson, he was assisting Owen D. Young in the institution of the Agent General's organization and work.

There is also included an extract from the contemporaneous notes of Gustav Stresemann, dated June 4th, 1924, covering a visit to him of our Ambassador at Berlin, Mr. Houghton, and Mr. James A. Logan, the unofficial observer of the United States at the Reparation Commission.

With this is given the report, dated June 11th, 1924, of Mr. Logan to President Barthou of the Reparation Commission, covering his visit to Germany, and a report to me dated June 12th, 1924, by Mr. Logan as to the then situation of the experts' report.

For years the Reparation Commission had struggled with the Reparations question when Charles E. Hughes, Secretary of State of the United States, in an address at New Haven, Connecticut, on December 29th, 1922, made a recommendation, now historic, that the question should be referred to a Committee of Experts who should consider it from an economic rather than a political viewpoint.

The question of reparations in each country concerned involved both an economic and a political problem, and a proper settlement of it in any one of them or between them all, necessitated a compromise between economics and politics along lines of an expediency which recognized the real essentials of both.

In negotiating settlements of such a nature, men of official position, in endeavoring to avoid offense to public opinion, tend to advocate proposals sacrificing economic principles for temporary political objectives, while economists, on the other hand, in applying economic principles, tend

to disregard existing public sentiment which, however prejudiced, ignorant or temporary at first, must finally determine the fate of the settlement.

In the case of the Reparation Commission such a negotiation was conducted by a board upon which officials and economists sat together, and the fight of the politicians against what they conceived involved their political extinction, and the fight of the economists against what they conceived involved their economic stultification, made a satisfactory agreement impossible.

The decision of November 30th, 1923, of the Reparation Commission authorizing the First Committee of Experts, limited their field and they were invited only "to consider the means of balancing the budget and the measures to be taken to stabilize the currency" of Germany.

Notwithstanding this limitation, the report of the Experts Committee was a compromise between economic principles and political necessities, but it was a compromise whose finding was dominated by economic experts. It was ratified first by the Reparation Commission and then by the constructive statesmen of the Allied Governments at the London Conference, August 1924, because in the existing state of public sentiment created by the economic crisis in Europe it was dangerous

for politicians, including German politicians, to oppose its ratification.

The report of the experts was tolerated by the politicians, for the politicians realized that they had failed to satisfy the public. Statesmen, comparatively unhampered by demagogic attack, could then deal with a public sentiment imbued with confidence in the impartiality and competency of the experts, since their plan containing a proper summary of its provisions could be universally understood.

The importance of the Hughes suggestion as a method to be followed by governments confronted by either international or domestic questions, in which both a political and an economic problem are involved, has never been fully appreciated, notwithstanding its outstanding success in the reparations adjustment.

Public sentiment is always the final arbiter, but when public opinion is approached in a political campaign by the commingled arguments of politicians and economists, conducted in an atmosphere surcharged with the interjected smoke and fog of the demagogues, it lacks a basis for intelligent differentiations.

The Hughes method demonstrated that when the pronouncement is authoritative and is expressed or summarized in clear and concise terms

understandable by the average citizen, nothing is so influential in securing its popular approval as a conviction on the part of the public that the proponents are impartial.

Given these attributes, an economic report interjected into a confused political situation puts demagogism at a discount and fortifies the statesmen and public-spirited citizens in their constructive efforts to secure a common-sense and practical compromise between the economic exigencies set out in the report and an existing public sentiment.

The remarkable address by Secretary Hughes in December 1922, in so far as it relates to the appointment of a Committee of Experts, is printed in the Appendix to this book.

CHARLES G. DAWES

FOREWORD

THE once burning question of German reparations now lies cold in the gulf between live issues and History. Now is the time when all testimony that has no value whatever in settling problems on which action is necessary, but any value at all in assisting reflection upon them, should be documented and left on public record, lest history take shape and direction without it. This accumulative period extends from the moment when the issues cease to stir our passions, but should not be delayed beyond the time when all things can be safely revealed without giving umbrage to national pride or making invidious reference to living individuals. Into this neutral time-zone falls this volume. General Dawes would be the last to claim that he has written a " history " of the reparations problem, or even expounded it so that the issue will be clear to the student. He has not written a connected " readable " account of the actual proceedings of the Dawes Committee. But he has done something even more important, and quite different, in giving us the authentic contemporary account of incident, impression and intention,

moment by moment—a contribution to history of unique character. The sense of actuality and vitality is heightened by the inclusion of the now irrelevant detail of a personal journal—the people met and taken into discussion, the “social” aspects, the dinners attended, and the emphasis on the outside view. The record is entirely free from those unconscious rationalizations of procedure and that *ex post facto* wisdom which almost invariably appear in accounts written even a short time after the events to which they refer. Nothing is more difficult than to state exactly what one felt about a particular event at the time and why, so insensible is modification and tinting by subsequent events, explanations and personal reflection. Immediacy is as irrecoverable as a dream. But it is as valuable as a contemporary photograph, for only by it can the real chain of causation be established.

In any composite movement in which there are many actors, working indeed to a common end but with independent parts, no one person's account can give a complete picture of the whole, and perhaps no complete picture is possible if any one account is missing. But of all the accounts, the one least dispensable is that of the captain, or leader. The Chairman is the highest common factor of all the chief activities, and in addition

he faces the world, anticipates opinion, considers the movement as a whole. Here General Dawes records impressions and intentions which were known to him alone. On the other hand, he is not a member of the various committees, and may know little of the stresses and strains within them, nor of the subordinate movements until they survive as major issues. It is not surprising therefore if, without impugning his record in any way or in any detail, a single member's should be found to be different—stressing points here touched lightly, ignoring issues here treated as critical. Both would be right, and complementary, and neither could be a complete account of the Committee's work but both would be indispensable to such a history.

From the first we knew that the rehabilitation of the German currency system would require some kind of external financial support in an interim stage during which Germany would get her financial health restored and be in a position to make reparation payments. For the extent to which the depreciation of the mark had brought the confusion and havoc of an earthquake is unbelievable to a generation that has not studied the facts and recovered the spirit of terror. In such external support American participation was vital. But such participation was not dependent merely

upon the feeling of a financial house or two; it involved American public opinion—shy, insular, set by the fraction of a tone in its note into a key of high suspicion and isolation or of a generous co-operative leadership. Someone must be involved, outside current politics, who could “sell” the scheme by his very signature, to the American people. We were told that the one person who could deliver the goods for us was General Charles Dawes, noted for prompt action, vigorous and picturesque speech, with a special pipe of his own that stood for his personality almost without a cartoon, and having towards polite society and its conventions an attitude around which hung an anecdotal cluster, in which real and apocryphal were equally entertaining and inextricably mixed. If he contributed to our success by giving wide American acceptance to the Committee’s existence at the start and a practical reception to its report at the end, we were to be well content, and not expect more of him. But a great deal more indeed we got from him. For he kept himself free from detailed contention, and therefore stood as a final court of judgment, to which we had the less need to have recourse because it was always there. He kept the contacts with the outside world during our proceedings, freeing us from embarrassment but creating no feeling of aloofness or indifference. He

had an eye for essentials and smooth working. And if leadership is encouragement, enheartenment at the critical moment, and getting the best out of a team, he was a born leader. Some of us soon learned that underneath the "Hell and Maria"-ness of a rather mythical violence was a singularly generous nature, punctuating faith in himself with strange essential humilities and almost extravagant appreciations of the qualities and work of others. These characteristics come out frequently in his journal. They go a little way towards explaining the uniform success he has had in his career in "getting results", whether in France, or as Director of the Budget, in the Dawes Commission, as Vice-President, as Ambassador, or Chairman of his Bank, for he has trusted his assistants and rejoiced in any limelight they could get, and it has never affected one whit his own individuality. He gave our work a fine public start. "The installation speech", said Owen D. Young on one occasion, "created at once a change in the public opinion of Europe. His directness, his clearness, his determination and his courage suddenly dispelled despair and doubt and gave hope and confidence to the masses of people of Europe and a feeling of pride to the people of America."

In my records, and from my viewpoint, the critical points in the work of the Dawes Committee

were (1) the early decision, led by the American members, to get rid of the confusion of thought existing up to that point as to what Germany “could pay”, by drawing the distinction between what Germany could raise in internal taxation *towards* an external burden, dependent on her own economic health, and what Germany could transfer as an exportable surplus which depended also upon the willingness of others to be paid, and to provide machinery for drawing upon the one fund for the purposes of the other in such a way as not to endanger the German exchange ; (2) the decision to raise an external loan and form a gold bank and Dr. Schacht’s forcing action thereon ; (3) the adoption by the Committee of the principle of equality of taxation, and the successive refinements of the idea which brought the taxable fund, to the consternation particularly of the French members, much lower than wishful thinking and the Versailles spirit had thought possible ; (4) the skill of Parmentier in negotiating for us the essential condition of the unity of the Reich—a euphemism for the evacuation of the Ruhr ; (5) the effect of the strength of German manufacturing industries upon the minds of the American members ; (6) the countervailing influence of the American economic experts ; (7) the effect of the existence of a draft of a possible minority report on Budgetary affairs ;

(8) Franqui's views—really suggested to him by the Chairman—about co-ordination and control of revenue and gages ; (9) the excitement among the Latin members—of which the Chairman was hardly aware—about General Dawes' " letter of transmittal " and the final solution of the problem ; and (10) the reluctance of those members also to accept Mr. Young's idea of " bullets "—the pithy summations of the chief points of the report—a movement which assumed formidable dimensions, and was only removed finally by the persuasion the British members exerted upon Parmentier to recognize that the American members must be presumed to know their own problem best, and that the reception in the United States was of paramount importance. Any one of these points, to me, exerted a vital influence—and General Dawes' journal shows that he too was conscious of some of them in varying degrees. It is natural that the American members were not then fully conscious of the volume of private criticisms of any standpoint they may have taken, just as the British members would not know very much about the running fire of inner criticism of anything they were specially sponsoring. I certainly remember Parmentier begging me not to write any more memoranda about taxable capacity—which became beautifully less with each issue—otherwise

Germany would be receiving instead of paying reparations!

I mention these points, without further expounding them, just to indicate how complex and composite an affair such a scheme must be when it is the result of convergence of forces from five national points and private bureaux, and to give my personal background for General Dawes' journal. On some of them he throws a unique and authoritative light. It is for others to give him his due meed of praise, for the journal awards him none. "When it is over", he once said, "we shall get either garbage or garlands. I'll run the risk of the garbage."

It is not for me here to state what the Report accomplished, and what forces were at work to change the problems with which it dealt. It reinstated German economy, and for five years kept the peace. But the underlying political dilemmas which it had to take for granted were bound to assert themselves eventually. It was not in itself, and could not be, for it was not allowed to be, a solution of the Reparation policy—but it was a substantial step away from lunacy.

History may lose sight of the problem with which it dealt, and catalogue the Committee as an early example of an ingenious device for ending a political or diplomatic impasse with national pre-

judices arrayed, by the introduction of private individuals, with no commitment except to their own consciences, to suggest a way out which, although the governments had no prior commitments, should be compelling in its unanimity and impartial approach.

STAMP

FOREWORD

SOME months ago General Dawes, in the course of a conversation, told me he was going to publish the diary which he had kept as Chairman of the Committee of Experts appointed to find a solution of the reparations problem after the chaos of 1923. General Dawes was kind enough to give me the proofs of the book he was going to publish. The diary fascinated me in many ways, not only by the vividness of its narrative: it was the day-to-day chronicle of a man who contributed so much to steering Europe through the first complete breakdown of all the artificial economic conditions established by the peace treaties. There was a second breakdown to come, and now we are watching the disintegration of everything stipulated by the peace treaties, taking place before our eyes with the dramatic speed of a sensational film.

In such a time, the publication of General Dawes' diary is of special importance not only for the historian, but also for the statesman in the years to come. I am afraid that the literature of post-war history is already so vast that later

historians will hardly be able to pay very much attention to a large part of these publications. As one who has been close to the trend of events, I am afraid that most of this literature is based only on personal impressions, or betrays the entanglement of the authors in the magnitude and complexity of the problems without indicating a way out of this labyrinth. For many years after the war the minds of nearly all people were still under the influence of preconceived ideas based largely on a myth created by war and peace propaganda. Statesmen and historians both have had to struggle very hard to overcome the effect of such a myth, and the world will have to do so still for a long time to come. Here is the narrative of a man who was clearly influenced in the beginning by the strong ties which, more than most other human relations, bind together those who fought in the war on the same side. It is quite human that everybody who went through the war is naturally inclined to listen more to arguments brought forward by his old comrades than by those against whom fate forced him to fight.

But here we have one of the instances, perhaps the first after the war, of a man who underwent another experience, which later on became so common for all those who had fought against each other. This experience is based on the fact that a

spirit of fairness towards each other is bound to arise among those who really saw the heroic efforts and sufferings on both sides. That is the real beginning of the slow breakdown of hate, of passions, of impressions based on pure propaganda. When this phase, which is normal for chivalrous nations, is reached, it is then the task of the statesmen and those who advise them to make use of this happy evolution to settle matters in a constructive way and to stop repressive policies which, if used against virile nations, are bound to lead to a new rise of hate and passions and perhaps in the end to a new war.

For those who first have to take this road, it is not an easy one. In opening the door to more constructive and stable conditions, they will have to overcome the wishes of those who intend to perpetuate a regime based on hate and passion. They need qualities which allow them to go on and to carry out their work successfully, qualities which are not given to everyone. It is not only necessary to know what should be done and what might be done, but it is at least as essential to know how to persuade those who are reluctant. It was easy, for instance, to prove from a theoretical point of view that the German reparations payments in the long run would upset the economic equilibrium in Europe and the world to nearly

the same extent as the war itself. It might also not have been too difficult to work out a long-range plan to meet these dangers in accordance with such theoretical solutions. But what mattered was to find a solution acceptable to all concerned, which, at the same time, would have given a breathing space and a basis for recovery, but without trying to find a permanent and definite solution. Such a solution had to be acceptable not only to those in power, but also to public opinion, which might be years behind the insight of those who had to make the negotiations.

Thus, the man who in such a situation will have to bear the whole weight of responsibility must not only show great ability and knowledge, he must have other characteristics which are equally essential for his task. I cannot describe these necessary qualifications better than by quoting the principles which General Dawes laid down in his diary for himself and for one of his most helpful and brilliant collaborators, Owen Young. On January 4th, 1924, when sailing to Europe, he writes:

“Neither Young nor I seem as yet to be considering facts as related to any preconceived plan—an error easily and often unconsciously made. But if we make it, we demonstrate our incapacity for real usefulness in this work. Nothing is more

important at the inception of important work than humbleness of opinion. If one does not have it, he can never be sure that he has all the facts, much less the proper sense of their relative importance."

With these words General Dawes defines what really is needed by the man who becomes responsible for the conduct of international negotiations in times of great emergency. I am happy to acknowledge that not only he, but later on in 1931 other representatives of the United States, have shown the same qualities, which really enabled the German Government to carry on during a most critical period, when constructive understanding and solutions were lacking on the part of many who were then in responsible positions in Europe.

Reading the diary of General Dawes, one must be impressed by the fact that he and his friends succeeded in keeping out of their discussions and deliberations a spirit of revengefulness, of negativeness, and a tendency towards purely abstract recommendations, which were so characteristic of most of the post-war international conferences. Only one who has attended such conferences can fully appreciate what tact, authority and knowledge were necessary in order to have nearly all the members of the Expert

Committee rallying round the methods and the principles which General Dawes laid down for himself. That becomes especially clear as regards the position of the French expert, Parmentier, whose delicate position General Dawes, in his restrained way, makes so very clear.

One aspect of the problem made the task of the American and British experts especially difficult. They, of course, realized that the prolonged occupation of the Ruhr district by French troops made any payment of German reparations impossible. On the other hand, they had to realize that, without giving some new pledges to Poincaré, they would never be able to restore economic equilibrium in Germany as a condition for stable currency and an industrial revival. But, as General Dawes says on different occasions in his diary, they had to be very careful to avoid allowing the Experts' Committee to become entangled in purely political questions. If they had made that mistake, then their own work would have ended like that of most other conferences, that is to say, in a theoretical solution which could never be carried out for political reasons. General Dawes' diary is very important for the historian in this respect, if at the same time he fully values the very helpful policy of the British Government. The diary shows how General Dawes approached the problem of

the evacuation of the Ruhr district and how he restricted the Committee's discussions of the Ruhr problem to its purely economic aspects, and how, in the end, he got the most valuable and far-sighted support from the Belgian Government, which until then had, more than any other nation, supported the French tactics.

It will always remain a special merit of General Dawes to have insisted that the report of the Experts' Committee should be preceded by a statement defining the scope of the experts' investigations and discussions, and laying down broad principles as to what could be done at the moment and what left for the future. By defining clearly the difference between Germany's capacity to pay and her capacity to transfer such payments, this report once and for all should have eliminated the confusion regarding these two distinct capacities—a confusion which had such a disastrous effect especially in the first four years after the war. This was the first real progressive step away from the chaotic condition created by the policy of ultimatums exacting cash transfers which again and again upset the painfully acquired equilibrium of the German budget and thus the stability of the currency as well. In the first five years after the war before the Dawes report, it seemed as if long-accepted theories of currency

and budgetary questions had to be invalidated all over again by an incredibly extravagant financial experiment upon the living body of the German nation.

This clear conception of the difference in function between the raising of sums for reparations payments within Germany and the transferring of such enormous sums into other currencies led logically to the development of a system of deliveries in kind, which largely replaced cash transfers of goods. For this purpose, and to re-establish Germany's purchasing power in the world market, foreign loans were needed. These foreign loans alone permitted for a long period both cash transfers and deliveries in kind for reparation purposes. But as soon as the import of foreign capital ceased, any further transfer of reparations could be made only by endangering the stability of the new currency and the whole credit system of Germany. Therefore, a safety-valve had to be found to prevent the repetition of previous contingencies which led not only to further debasement of Germany's currency, but also to a general instability of the exchange value of other currencies at the same time. To avoid this danger, the Dawes Plan provided for an automatic transfer moratorium. Such a moratorium did not imply an immediate cessation of

reparation payments in German currency to the Agent General for Reparations. But rather, with the consent of the Reparation Commission, the Agent General was able to stop the transfer of these sums and to invest them inside Germany. This was a most ingenious solution from the economic and financial as well as the political point of view.

At this point a constitutional factor of great political consequence should be mentioned. A minor provision in the treaties endorsing the Dawes Plan could be interpreted as counter to the Weimar Constitution. For this reason a two-thirds majority in the Reichstag was deemed necessary to ratify the Dawes legislation. That two-thirds vote was obtained only because General Dawes and his colleagues had succeeded in introducing a safety-valve in the whole plan by means of the transfer moratorium, and by stipulating evacuation of the Ruhr as a corollary to the execution of the Plan. Only because of these two important conditions was the requisite number of Nationalist Party members persuaded to vote for the Plan, thus insuring the two-thirds majority. The immediate future of Germany was thereby salvaged. But the split in the Nationalist Party was a prelude to the subsequent shift of Nationalist youth to the Nazi Party.

The New Reparation Plan of 1929, influenced by the optimistic outlook of that time, unfortunately did away with many of the most important conditions of the Dawes Plan. It replaced a tentative but constructive solution with a scheme of fixed annuities for the next sixty years. It gave up the ingenious system of the transfer moratorium. This all led to the fact that the political constellation of 1924 in the Reichstag was no longer possible. The New Plan of 1929 could be made an issue of purely internal politics, and destined to drive an increasing percentage of the voters into the National-Socialist camp.

This, of course, was not the fault of the eminent American and British members of the 1929 Reparations Experts' Committee. It was partly the consequence of the fact that by a tactical mistake the German Government in 1928 consented to connect the early evacuation of the Rhineland with a definite and final reparations agreement. It was even more the consequence of the fact that in 1929 the whole reparations question was allowed to drift back into the purely political arena, which was so happily avoided by the foresight and tact of General Dawes and his collaborators. The political pact in which the New Plan was embodied gave a chance to French Governments to return to the old ideas of Poin-

caré. In case Germany was no longer able to transfer reparations on account of the slowing up of the influx of foreign capital, the resulting situation could be used by any French Government willing to do so, to threaten Germany with a collapse and to force her into a new political capitulation.

This main difference between the Dawes Plan and the New Plan was bound to lead to a fateful alternative: either a permanent enchainment of Germany as regards foreign policy, or revolutionary changes in her economic life involving the risk that a large part of the German nation would drift into the anti-democratic camp. Thus many far-sighted members of the German Parliament realized that acceptance of the New Plan portended grave constitutional consequences for Germany. But once the policy of revising the Dawes Plan was started in 1928, they had to choose between the danger of permanent French occupation of a part of the Rhineland, or the acceptance of the New Reparations Plan which already appeared moribund by the time it was ratified by the powers. The New Plan was bound to shake violently again the economic and political foundations of Germany which had been somewhat stable only during the five years' life of the Dawes Plan.

If the safety-valves of the Dawes Plan had remained in force under the New Plan, the collapse of the German credit system as well as the panic of foreign private creditors in 1931 could have been avoided. Instead of forced exports of capital for reparations payments as soon as the influx of foreign capital ceased, such sums could have been invested in Germany. Or else, if the reparations creditors insisted upon a transfer, they could have obtained the reparations sums due them only by accepting increased deliveries in kind or a larger free German export surplus.

But the New Plan already provided for a gradual decrease of the deliveries in kind. And the Hoover moratorium, which initiated the end of the German reparations, practically did away with these deliveries altogether. Thus the great success of getting rid of the reparations in an unexpectedly short time led for a moment to an unemployment figure in Germany which certainly would have been lower by 10 to 20 per cent if the safety-valves of the Dawes Plan had not been removed.

The regime of the Dawes Plan in connection with these safety-valves, and the large import of foreign capital allowed Germany for a few years to meet her obligations towards the reparations creditors. At the same time it gave her a breathing

space and a chance to recondition her whole economic life and to keep unemployment at a very low level. Thus, only during the period of the Dawes Plan was it possible to carry on a normal parliamentary regime. It largely contributed to the possibility for Germany to meet the most violent crisis resulting from the final liquidation of the war debts and reparations without again losing her freedom in foreign policy. This fact, I think, should be borne in mind by historians in judging the merits of the work of General Dawes and his collaborators. One day it might also be realized by those in the German nation who so violently opposed the ratification of the Dawes Plan, that without the five years' regime initiated by the Plan, there would have been no chance to lay the basis for any policy calculated to restore freedom of action and equality of status for German foreign policy.

H. BRÜNING

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At sea,
Steamship America,
January 2, 1924

ON Friday, December 7th last, received a long-distance call from Secretary Hughes, who said that the President desired me to come to Washington at once. Upon my telling him that I was to speak at the Harding Memorial meeting the next Sunday afternoon, he told me to come immediately thereafter. He gave me no idea of this summons.

I left Chicago Monday and arrived at Washington 9 A.M. Went to Hughes' office. He read me the correspondence and telegram passing between our Government and Great Britain, France and Germany relative to the presence of unofficial American experts upon a new committee to be appointed by the Reparation Commission under the Treaty of Versailles, the object of which was to advise the Reparation Commission as to a plan for stabilizing the currency and balancing the budget of Germany.

Hughes said that if I was invited by the Allies, he desired me to serve. I agreed. He then discussed the occurrences leading up to the decision to establish the Committee in his usual masterful and clear way.

Called on President Coolidge for a few minutes as the Cabinet was about to meet. Took lunch with him and his wife at the White House. Did not discuss the Committee matter with him.

Called on my brother Henry, now Comptroller of the Currency, on General Lord, Director of the Budget Bureau, and Secretary Weeks, and then took the 3 P.M. train for Chicago.

Finally, on Wednesday, December 26th, my brother Rufus and I started for Washington, having arranged with Owen D. Young, the other American member of the Committee, for a meeting with Secretary Hughes, who desired to see us before we sailed. We had a two-hours conference with Hughes.

Took lunch at the White House with President and Mrs. Coolidge, but again did not discuss the Committee.

Young and I decided to appoint Rufus Chief of our personal staff of assistants and experts, and Stuart Crocker, Secretary.

We took the 4 P.M. train for New York.

On Saturday, Rufus, Young and I sailed, together with my wife and Rufus's daughter Jean, Mr. Crocker, Mr. Goldsmith and Mr. Tileston.

This brings matters to date in a rough way when I put down the fact that we have put in four or five hours a day in conferences. Goldsmith is

thoroughly informed as to what has already happened in the matter of reparations and we want to become so as far as possible.

If I am able to keep up these notes, it will only be because they do not cover details. Again, what is our effort as Americans to be if not to view things with the perspective which disinterestedness alone makes possible?

I am able at this time to see from our discussions with Goldsmith, who has been in the midst of the reparations work, the advantages that our aloofness from it in the past gives us in the matter of selecting the essentials of the question for discussion.

Let me summarize, therefore, my mental *status quo*, which changes as it should with every new inclusion of facts. In our talks with Dwight Morrow and Roland Boyden, the former observer for the United States on the Reparation Commission, and an acknowledged and greatly respected authority, a divergence of views manifested itself of which, no doubt, we will see constantly the counterpart during our work abroad.

At sea, January 3, 1924

Boyden seemed to think that to give Germany the "will to work" the limit of reparations should

be fixed now—that productivity in Germany depends upon removing the menace of indefinite reparations. Morrow, on the other hand, believes that the stabilization of the currency and the balancing of the budget is the important thing now as the first step—that an endeavor to fix reparations now means an impasse with France, which does not propose to estimate the present strength of an impoverished Germany in such a way as to finally foreclose the case.

He feels that, given a currency system and reformed budget, Germany will commence to revive as Austria has done, notwithstanding that vast and unsettled reparations overhang that country and its people.

I have talked since December 14th, my first trip to Washington, with those in this country closest in touch with the European situation—with our Secretary of State—with learned experts and students of foreign business.

Out of it all—and I write it in a humble frame of mind—I believe is coming perspective. Less and less am I impressed with detailed argument. The more I hear, the more clearly I see that if, as a Committee, we are to make progress and really be helpful, we must be something quite different from a debating society. Just now my mind is more upon those methods which I must

adopt as Chairman to determine the capacity of our Committee to act than it is upon Germany's capacity to pay.

I am delighted with my associate, Owen D. Young. He is all that Harbord said and more. He has intellectual poise. His ability, after patiently listening to a detailed discussion, to summarize his conclusions in a few sentences, is remarkable. The elimination of the non-essentials marks all his processes of thought. Added to that, he inspires not only confidence but friendship and trust.

At sea, January 4, 1924

I can see that it will be with great difficulty that I force myself to keep up these notes.

After four or five hours a day in conference, where one becomes satiated with a subject, one's natural laziness whispers : " What's the use ? " And yet I know from my Journal of the Great War that the thing should be done and that nothing ever takes the place of contemporaneous notes.

I think one thing can be fairly said of both Young and myself, and that is we are open-minded.

Goldsmith is deluging us at our request with facts and economic arguments. Neither Young nor

I seem as yet to be considering facts as related to any preconceived plan—an error easily and often unconsciously made. But if we make it, we demonstrate our incapacity for real usefulness in this work. Nothing is more important at the inception of important work than humbleness of opinion. If one does not have it, he can never be sure that he has all the facts, much less the proper sense of their relative importance.

Am getting rather “fed up” on expert opinion as I read the long arguments of “experts” ending in diametrically opposite conclusions. I realize the value of “expert” opinion, but I realize also the great danger of its unqualified acceptance. Where a man has acquired his “expertness” merely as a judge and observer of other men’s work, whose burdens he himself has never borne—in other words, where he lacks a definite and personal experience in a practical participating way with the work itself—I regard his opinions and advice as of negligible value.

All international economists deal with a subject so vast that it defies comparison with other subjects upon which we are accustomed to call in experts. For this reason these particular economists enjoy a general range of possible asininity, wider and more unchallenged than any others. By some of them one must set great store—by others

none. One thing is certain, the European situation needs something besides theoretical discussion or—let us say—in addition to it.

My reading of the economic arguments, pro and con, inspires in me a feeling of apprehension when I see myself designated as an “expert”. Is it possible that my common sense is suspected?

At sea, January 5, 1924

There is an analogy between the methods in which the body and mind function. When a young man at college, I acquired through gymnasium training the habit of a daily setting-up exercise which I have followed all my life. At present there are many of the old exercises which I do not go through. About two years ago I started one again which I had not used for at least twenty-five years. It involved flexing one knee and extending the other foot as far back as possible, and then, in this extended position, with the body held rigidly, and inclined forward, to raise and lower the arms and hands between the floor and the nearest point to heaven.

After this is done with the right knee forward, the same thing follows with the left knee forward. The first time I tried it after this long period I could with difficulty raise and lower the arms and

hands once with the right knee advanced and once with the left knee advanced. I contented myself with thus doing it only once each day. But each day it became easier without my being conscious of it.

One day about a year later it occurred to me to increase the number of this kind of movements. To my surprise, I found its repetition involved me in no more fatigue or stiffness than a number of my other exercises which I had never abandoned. In other words, so sensitive is the internal machinery designed to prepare and keep the body in condition to do what it is to be called upon to do that not over 20 seconds a day of this particular movement had served to prepare it effectively to work.

This suggested the thought that our submerged and subjective mind originates and completes innumerable intellectual processes in its management of the body which never attract the notice of the conscious mind; that Nature has arranged this so that this inner intelligence which has a much more complicated task in co-ordinating and controlling the interior machinery of the body than the conscious mind has in accommodating the body as a whole to its outside environment, may not be interfered with by the conscious mind in doing its own business in its own way.

The point I started out to make was this: that these daily conferences on the boat which Young and Rufus and I have held, involving, as they do, the constant repetition of thought on this unfamiliar question—this mental exercise is doing to the mind what physical repetition of exercise does to the body. It is not only adding to our knowledge but is preparing us for this kind of work when we land next Monday.

I really attach more importance to the exercise which my mind has had than to the knowledge which it has acquired during the last week.

At sea, Sunday, January 6, 1924

Our conferences on the ship have ended and it occurs to me to mention our surroundings. The ship *America* is kept as clean as a whistle. Its service is excellent, and the table likewise. It is steady in stiff seas. Altogether it is a credit to the United States Shipping Board. Captain Rind has been very considerate of us and set aside the children's play-room as our place of conference. The significance of this name was not wholly lost to us. Through some mysterious subconscious mental agreement, probably arising out of a desire to forget the more appropriate actual designation, we are calling the conference room "the dog house".

A photograph was taken this morning of the inmates of "the dog house" together with Captain Rind.

This afternoon we will pass Bishop's Rock and this evening land at Plymouth. Logan cables that the Reparation Commission is sending a man to Cherbourg to expedite our landing Monday morning. Apparently we are welcome, but paraphrasing Balthasar Gracian, I am concerned not with the present feeling at our entry, but what the future feeling will be at our exit.

PARIS, January 8, 1924

We arrived at Paris Monday morning and went to the Ritz Hotel, where I met my old friends of the hotel staff. Many of my old war-time associates met us at the depot—including Colonel Logan, the unofficial observer for the United States on the Reparation Commission, who has been much responsible for the formation of the Committee on which we are to serve.

We successfully dodged the flashlights at the depot. Logan spent last evening with us and outlined the various situations which have led up to the present one.

This morning I started out by calling on my old war associate Dean Jay, at Morgan Harjes and Company. From there went with Young to

Voisin's where we took lunch with General Pershing and Logan. John is looking well and is working hard on his book. We spent a long time together. He leaves to-morrow for the South of France for a short trip.

After lunch we went to Logan's office at the Reparation Commission.

Young and I drew up a formal statement to the press which I attach.

STATEMENT

PARIS, January 8, 1924

The American experts have, up to this time, made no statement of any kind to the press. Whatever they have to say now and hereafter will be by formal statement.

They have been invited by the Reparation Commission to sit as members of an Expert Committee which is asked to develop facts and make certain suggestions. The American experts come as private citizens without instructions and without the obligation of making reports except to the Reparation Commission. They have no preconceived plans, simply hoping that in the plans developed by others they may be of assistance.

There is one statement, however, which they

have no hesitation in making at this time, and without consultation they assume that it represents the sentiment of all members of the Committee as well as public sentiment everywhere, to wit: that time is an essence of this situation—that the Committee is a business committee concerned with facts and constructive inferences to be drawn from them—that their work should be conducted with all possible expedition, and that there should be daily and continued sessions.

CHARLES G. DAWES

OWEN D. YOUNG

We have said nothing, but already the papers are assuming the contrary.

At 5 P.M. the American correspondents, about twenty-five in number, called on us and we handed them the statement.

We are deluged with callers, cards, flowers and letters.

As this detail is a working one, am declining all invitations.

Paris seems much the same as when the sirens announcing air raids used to sound and Big Bertha helped relieve any occasional period of monotony. The uniforms are gone and my old headquarters, the Elysée Palace Hotel, has been changed into a bank.

General Payot telephoned he would arrive tomorrow from Havre. It certainly seems like the old times to be with the old friends and again to be lying awake nights thinking over difficult problems.

PARIS, January 10, 1924

Yesterday reminded me of the work in the war-time Paris. Young and I first saw Parmentier, French representative on our Committee. The circumference of the useful activity of our Committee, at least at the inception of our work, is a circle whose radius is the length of the string which ties Parmentier, one of the two French members of our Committee, to Poincaré. It is absolutely necessary for us to determine this and then where Poincaré really stands.

So Young and I made a full statement of our general attitude. I outlined some things which I am going to dictate to-night. The French are the key to the situation. We were frank and specific. We were much pleased with Parmentier to whom we submitted the question of whether we should call on Poincaré in advance of the first meeting. As to this he desired to consult Poincaré.

After this, Logan took us to call on Barthou, the President of the Reparation Commission. He talked to us a long time—told us our statement

was favorably commented upon by those he met at the French Chamber of Deputies that afternoon—that he proposed to refer to it at the first meeting of our Committee to which he proposed to bring the full Reparation Commission.

We then saw Sir John Bradbury, a decisive, clear-headed man, thoroughly “fed up” on the situation and not optimistic. We had no hesitation in getting right to bed-rock discussions of essentials. If he represents the same views as Kindersley and Stamp when they get here, we are in no danger of running at first into a fight over attempting to determine Germany’s final capacity to pay as fundamentally precedent to a consideration of the means to get her off a sick-bed. This was more encouraging.

Then we saw Mr. Delacroix, of Belgium, who spoke very intelligently and clearly, as well as constructively.

The Italian delegates to the Reparation Commission were not in Paris.

In the evening my dear friend, General Payot, and his wife, took dinner with us. Afterwards General Payot, who has been for a long period in charge of the railways in the Ruhr, talked to us of conditions there.

This morning my friend Loucheur called and we had a long interview.

Then Parmentier telephoned that Poincaré said he wanted to help us in every way—that he did not know what the public reaction to a call from us might be—and that he expected to entertain us at dinner next Monday night after our first meeting—the latter not to be mentioned for the present.

Logan had Young and me to lunch with Houghton, our Ambassador to Berlin. For two hours we conferred with him. He is extremely pessimistic, but able and suggestive.

Am working this evening on what I will say in opening the first session of the Committee as Chairman.

PARIS, January 11, 1924

It is the irony of fate that Paris, the playground of the travelling American, is, and always has been, for me the place of strenuous endeavor and anxiety night and day, and little else. It is now late at night. I practically completed my opening speech, by which I want to put the asset of public confidence in the hands of our Committee.

At 4.30 P.M. when I was through, I spent two hours with Barthou, together with Logan, Rufus and Captain de Marenches, whose great abilities as an interpreter are at my service. Barthou approved my speech with words of commenda-

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tion. As it will be attached to these notes, it will cover many things which I would otherwise have written here. It will go to the press in Europe and at home.

As in the war, I took my lunch on the desk of my office. Loucheur called on me this morning with proffers of assistance if needed. I also saw Senator Dupuy, of the *Petit Parisien*, who will give a lunch to certain French Senators whom he wishes Young and me to meet.

And so, tired, to bed.

PARIS, January 13, 1924

Yesterday Young and I took lunch with Parmentier and Allix, the French members of our Committee. Read them my opening speech which they approved. Afterwards went to 18 rue de Tilsitt and carefully revised the phraseology. In the evening took dinner with General Payot.

Captain de Marenches has translated my address into French. There is great advantage in first statements.

Young and I were invited over here to be something besides scenery. We agree on everything and will not become disunited. Above all, I learned in numerous inter-Allied conferences over here during the war to precipitate disagreeable issues if they were vital. Since this question of the necessity of

deciding upon total reparations before constructive work by our Committee can commence is at issue, we might as well meet it. If the French and British are going to split on this issue they might as well split at once and we will be spared the humiliation of having contributed through our Committee simply to a postponement of an issue which must eventually be fought out—and this, too, when every week's delay in meeting real issues is a crime against humanity.

In my speech I clearly show where Young and I stand on this point. We now agree with the French. Afterwards we may disagree with them on other vital matters. We must be honest. I trust the great common sense of the British and their right-mindedness. They cannot and will not take a step in this great matter which is not constructive. But the only way to find out is to act. "Action, action, all is action!" said the greatest Frenchman.

My speech having been cleared by the French, I do not worry about the British doing the same.

This afternoon the Italian members of the Committee called on me. They have just arrived. Read them the speech; they approved.

At lunch the other day, Parmentier said that Poincaré "took the same attitude towards the French members of the Committee as toward us".

The explanation of this is simple. He desires to be free to define France's position toward the Committee as a whole at any time he deems desirable. This is natural; but on what the Committee does his attitude will depend. I do not underestimate our difficulties and probably overestimate the effects of my speech upon public opinion. But I feel that the speech precipitates the question of whether we are really to be a factor in the situation. I mean the Committee, not simply the American members.

Through channels other than the French we are notified that the British Government has detailed Secret Service men to watch us. The man who is supposed to look after me is a Mr. Tierney—5 ft. 9 in., 170 pounds, blue eyes, North of Ireland dialect and an ex-prize fighter. This sounds like an E. Phillips Oppenheim plot, and I don't believe it. However, if it is so, I appreciate the implied compliment of having an ex-prize fighter assigned to me.

PARIS, January 15, 1924

We have now had three sessions of our Committee. I have never met an abler group of men. At the first session yesterday, the Reparation Commission was present. Louis Barthou, the Chairman of the Reparation Commission, a

former Premier of France, made a speech and then introduced me as Chairman of the Committee of Experts.

I then made my speech.

The speech has been unusually well received by the French and the cables I am receiving indicate that it has made a good impression in the United States. But in writing it I had only in mind its usefulness in helping to bring about constructive results here. Am inclined to think it has done so.

At the Committee meeting to-day it was decided to send for the Chairman of the Reichsbank.

The unusual intelligence of the Committee makes progress in understanding rapid. This afternoon we had a meeting of our American experts.

Am glad that it looks as if my speech went well in the United States, for Coolidge and Hughes showed considerable courage in turning us loose over here. It was easy to make a mistake and yet I dictated what I had to say in a couple of hours ; and then carefully revised it. I had, however, sub-consciously been at work on it for the last two weeks. In reading it over I see nothing to change even if I could.

Am taking it a little easier for the moment.

Sir Robert Kindersley and Sir Josiah Stamp are able and companionable men, great in breadth of view, experience and common sense.

Francqui, the Belgian, is able and very practical.

Pirelli, the Italian, is as keen as a briar—ingenious and most open and honest in his views.

It would seem impossible for such a body of men to adjourn without some accomplishment. The business note is predominant. We have had no disagreements. We have decided in principle to tackle the stabilization of the currency first; that it is to be done by a bank of issue under foreign control; that we must do what we can to support the rentenmark to cover the interval until a gold basis currency can be established; that we recognize that taxation in Germany should be as heavy as in any of the Allied countries; that any deficit in the German budget must not be met by the new bank of issue except as approved by the foreign control.

We recognize that we have some debatable questions ahead of us, such as the inclusion of the Ruhr taxation in German revenues, etc., but we are taking one thing at a time.

I really think my speech and the earnestness and energy with which we are starting work tends to create favorable sentiment behind any conclusions we eventually reach. People generally will be apt to feel "well, the Committee was able, honest, industrious and non-political and probably what



FIRST MEETING, COMMITTEE OF EXPERTS—ASTORIA HOTEL, PARIS, JANUARY 14, 1924

Left to right: F. Flora—A. Pirelli—B. Allix—J. Parmentier—Charles G. Dawes—Owen D. Young—R. M. Kindersley—
J. G. Stamp—E. Francqui—Maurice Houtart

Behind Mr. Dawes—Left to right: Andrew McFadyen, General Secretary—M. Denis, Assistant Secretary

they decide upon is the best that can be done ”.

It behooves us, therefore, to watch our conduct. Perhaps I am talking too hopefully.

ADDRESS DELIVERED BEFORE THE REPARATION
COMMISSION

(Astoria Hotel, Paris, France, January 14, 1924)

Gentlemen of the Reparation Commission
and the Committee of Experts :

The difficulties involved in the determination of Allied policy, both in time of war and in time of peace, are little realized by the average citizen in all countries. To him, it seems strange that the eventual common-sense agreements which, in times of emergency, characterize Allied policy, come about so slowly. He does not realize the barriers which must first be beaten down, erected by national pride and the pride and selfish interest of different Allied officials, whose powers are affected by the act of coercive inter-Allied co-ordination, and the incessant misrepresentations and intolerable interjections of those foul and carrion-loving vultures—the nationalistic demagogues of all countries, who would exploit their pitiful personalities out of a common misfortune.

Let me illustrate : Napoleon's sixty-fourth maxim of war was, “ Nothing in war is more

important than a central command—under one chief”. This great principle was realized and accepted at the beginning of the war by all the military authorities of the world, and yet, after nearly four years of warfare and the unnecessary loss of tens of thousands of lives and hundreds of millions in material wealth, the German army, on March 21st, 1918, struck at the junction of the British and French armies and broke through, because of the lack of a central command controlling the proper disposition of reserves. The British army was forced back upon its line of communication toward the Channel ports and the French army was forced back upon its line of communication toward Paris and a gap was opened. Then it was that the Allies, facing the abyss, yielded a part of their sovereign power for the time being to the Central Command under Foch, which paved the way to Allied victory.

What brought about complete Allied co-operation in time of war? Nothing but overwhelming emergency. And when victory came and the Treaty of Versailles was signed, what again have we seen, but those same natural forces and immutable laws of human nature which prevented an earlier agreement upon a Central Allied Command in time of war, operating to prevent a common Allied plan in time of peace.

What is the question of to-day ? Upon what does the success of this Committee depend ? Upon powers of persuasion ? Primarily, no ! Upon honesty and ability ? Primarily, no ! It depends chiefly upon whether, in the public mind and conscience of the Allies and of the world, there is an adequate conception of the great disaster which faces each Ally and Europe unless common sense is crowned king.

Does this conception exist ? We do not know, but we shall know. To this knowledge of whether this conception exists, the result of our work and the action of the Reparation Commission thereon will perhaps be the final contribution. As an American citizen, invited to this place by the Reparation Commission, I can speak neither for the Government of the United States nor for the American people, but as an individual I can say that I have read, in shame and humiliation, the outpourings of the American nationalistic demagogues who undertake to lecture Europe in order to lift themselves into some petty office or maintain political popularity. Surely I have as much right as they to express my individual opinion of the attitude held by the great inarticulate mind and conscience of my people. Mr. Young and I will endeavor to express it in our actions upon this Committee. We come, humble in opinion, know-

ing that there is no barrier against the acquiring of knowledge like the pride of preconceived opinion. We come, knowing that you know much more about your affairs than we do. We come, realizing the sacrifices which you have made for the victory to which our people also contributed and of which we share the benefits. We know that thirteen hundred and eighty-five thousand of the flower of France's youth, nine hundred and forty-six thousand of Great Britain's youth, four hundred and sixty thousand of Italy's youth, forty thousand of Belgium's youth, and one hundred and twenty-seven thousand of Serbia's youth, together with the precious bodies of our own American youth, lie buried close together here, across the sea. We know that from their sacrifice has come the great desire on the part of all peoples to make it worth while for their sakes, as well as for those who live and are to live hereafter in the world.

We come only wanting to be helpful to you, who, with superior knowledge and longer experience, will take the initiative in the search for a common-sense agreement.

We come determined that nothing shall prevent our full usefulness, if we have any, to you, in a work which is yours.

In the last war I was the Chief of Supply Procurement for the American Expeditionary Forces,

under command of General Pershing. In the vanguard of our army I came with empty hands. Our great commander, General Pershing, at the date of our entry into the war, was faced with the necessity of building a line of communication and the other installations which would care for his eventual army. During the first seven months from the time we landed in France, there was shipped to us from America only three hundred and fifty seven thousand ship tons of supplies, and yet, when the American army sailed back to the United States, it had required over seventeen million tons, of which ten million had been furnished chiefly by France and Great Britain, already stripped of resources by three years of devastating warfare. When we came, we stood empty-handed, reaching to our friends for needed supplies. You may be sure that we did not start to tell our Allies what great men we were and how much we knew. At their feet, humble in opinion, out of their larger experience, we tried to learn the lessons of war emergency.

Great Britain furnished us ships to transport the bulk of our troops; we fired only French ammunition from French guns; our artillery was carried into action by French horses; we flew French aeroplanes; at the beginning, it was Belgian locomotives which carried our materials.

Italy furnished us men to work upon our lines of communication. All of our Allies, from their depleted stocks, helped us with a generosity to express gratification for which I find no adequate terms, but there was one supply in which our great Government did not fail, and that was in the supply of two million splendid men who, under General Pershing, marched and fought with your heroic troops in the final great and victorious struggle.

With these memories of old associations, is it surprising that I feel as if I had come among friends? With the confidence and belief in each other which we had during the war and the love which has come from past associations in common difficulties; with the belief that, in the providence of God, humanity is facing brighter days, and with the prayer that however little, as individuals, may be our contribution to better things, it will be all we have, let us approach our common work.

Now, let us consider for a minute the situation here, as it is confronted by two American business men who some three weeks ago were invited by the Reparation Commission to give it detailed attention in connection with the proposed work which we start to-day. Like other citizens of our own and other countries, our information consisted of what we had read in the newspapers and gained from

conversation with others presumably better informed. We had seen the Allies finally really united under a single Command, obtain a military victory which we had supposed was the precursor of a better world. For five years since that time and the signing of the Treaty of Versailles, we had seen the Allies losing the unity of understanding which is always essential to real peace and progress. We had come to know—in common with the citizens of all nations—that at last that lack of power to agree upon a common attitude and common action, had brought all Europe to a most critical and dangerous situation.

Finding ourselves then, as two American citizens, thus suddenly called upon by the Reparation Commission, we devoted ourselves to making our own diagnosis of our environments with the advantage—if it may be called such—of access to expert information.

This is no time to mince words. What, to-day, at the inception of the work of this Committee, have we found? In the first place, we see an impenetrable and colossal fog-bank of economic opinions, based upon premises of fact which have changed so rapidly as to have made the bulk of them worthless even if they were in agreement. With all due respect to the great ability of those experts who have wandered through this gloomy

labyrinth, they could not have failed to come out in opposite directions. They were confronted with the necessity of finding stable conclusions where no conditions were stable. If, in their computations designed to clarify the mind, they dealt with the mark, the next week the mark was something else; if they dealt with the dollar, the pound, the French or Belgian franc or the Italian lira, there was one value in exchange for each and another in internal purchasing power; if they dealt with gold, there were values in pre-war gold and post-war gold to be considered. In general, we failed to find much value in economic arguments based upon what ought to be instead of what is—based, in other words, upon a constantly changing *status quo*.

In the meantime, while these immense libraries—for they can be called by no other name—of legal arguments, of more or less obsolete statistics and of economic discussion were being laboriously compiled for five years, the foundations of economic Germany have wellnigh crumbled away, and with them, the productivity of Germany. Again, as the world has seen the economic life of Germany ebbing away, the credit of all the European Allies has felt a preliminary shock, because the world realized that if the German people lose their capacity to work, Germany loses her capacity to pay those reparations which are so

great an element in European solvency.

It would seem that the situation, as it has developed in the mind of your American members of this Committee, must have been regarded in much the same way by the Reparation Commission, to whom this Committee of practical men, free from political pressure, owes its creation. Realizing that the house was afire, they propose to find some water to put it out, without the further use of mathematics involving the fourth dimension.

By their instructions, they enable us to start our work on the basis of a *status quo*. We are not asked to determine the legality of the occupation of the Ruhr; we are not asked to declare the political effects of this or that prospective act of common sense; we are not asked to give our opinion upon those things which politicians of all countries have interjected into a situation which primarily demands, for its proper consideration, business minds, uninfluenced by political ambition or thought of personal consequences. Upon our report to the Reparation Commission of a plan for the stabilization of the German currency and the balancing of the German budget, it is for them, not for us, to be concerned with political effects.

The more I have talked with those here who are nearest the situation, the more do I realize the great wisdom which the Reparation Commission

has shown in defining the purpose of our convocation "in order to consider, in accordance with the provisions of Article 234 of the Treaty of Versailles, the resources and capacity of Germany", we are "entrusted with considering the means of balancing the budget and the measures to be taken to stabilize the currency". If, without fear or favor, we suggest a plan for the stabilization of Germany's currency and the balancing of the German budget, which the Reparation Commission deems fit to ratify, we will at least have done this: we will have suggested that which has enabled the Reparation Commission to start Germany toward productivity; and the re-establishment of German productivity is the starting-point of European prosperity.

As the economic processes of Germany under a stable currency and with a balanced budget are revived, there will be demonstrated the capacity of Germany to pay. Basic and controlling facts will then first appear.

Any common-sense individual can estimate the distance a well man can run. Fifty medical experts gathered around the bedside of a dying patient, will give fifty different estimates of how far he can run if he gets well. The Reparation Commission and the world, upon the question of Germany's capacity to pay, have thus far been

listening to the medical experts. Let us first help Germany to get well.

Now that we are members of a Committee having a definite and authoritatively defined object in view, we are less concerned for the moment with the present capacity of Germany to pay, than with the present capacity and courage of this Committee to act.

What is the use of deferring plain statement on this Committee? Why waste time in formalities and meaningless courtesies and conventionalities? Let me make, thus early, one practical suggestion.

Under President Harding, I established the system of executive control set up by Executive Order under which the first budget of the United States was prepared, in accordance with our recent budget legislation. I hesitate to call myself an expert on budget matters lest I put my reputation for common sense under suspicion; but how could anyone, expert or non-expert, suggest anything worth while about a German budget if the money collected through taxes and disbursed under the budget would not buy or pay for anything?

The first step which we should take, it seems to me, is to devise a system for stabilizing Germany's currency, so that we can get some water to run through the budget mill. Let us build the mill after we find the stream to turn its wheels.

PARIS, January 18, 1924

On Wednesday noon, I attended a lunch at which all the English-speaking correspondents were present. I took this occasion to speak frankly to them about a thing which is giving me some concern ; to wit, the constant reference to me in the Paris editions of American and English papers as initiating this or that thing on our Committee. I told the correspondents that I realized their anxiety and that of all good citizens to help us in constructive work. I then asked them to assume that we were in America or England and would read in the papers that two Frenchmen who had been asked over to collaborate with us in what was our own business, were dominating our work. It would, of course, not only be an embarrassment to the Frenchmen, but also to the work in hand.

I then said that it was Mr. Francqui, not myself, who suggested the invitation to Dr. Schacht.

Sir Robert Kindersley and Sir Josiah Stamp also spoke.

We discussed methods of publicity which would be fair to the work and reasonable to the press, which are naturally very hard to determine.

Hilaire Belloc made one of the most brilliant short talks I have ever heard.

Yesterday I lunched with Minister Sadoux,

whom I met in the war. Present were also Parmentier, Kindersley and Masson of the Crédit Lyonnais.

We are dividing the work of preparing the questionnaire for the Germans between the sub-committees which meet separately in the morning, and we have a plenary meeting of the full Committee in the afternoon.

Lunched to-day with my old friend, General Payot.

This evening Caro and I dined with Sir John and Lady Bradbury. The others present were Sir Robert and Lady Kindersley, Mr. Young, Sir Josiah Stamp, Miss Kirby and Colonel Logan. Had a very interesting talk after dinner.

Am receiving many cables about my speech. Was especially pleased with one from Secretary Hughes to Logan as follows :

“ Express to General Dawes my personal gratification at his straightforward and eminently sound statement which has met with approval in this country.” *

* “. . . The installation speech of General Dawes, which was published in full in the newspapers of all the principal countries of the world, created at once a change in the public opinion of Europe. His directness, his clearness, his determination and his courage suddenly dispelled despair and doubt and gave hope and confidence to the masses of people of Europe and a feeling of pride to the people of America . . .” (Owen D. Young, December 11, 1924, in address at Testimonial Dinner by business men of New York).

PARIS, January 19, 1924

At noon to-day I attended a lunch at which General Payot presided and which was attended by many of my French comrades of the war concerned in army supply and transportation. General Payot, Rufus and I spoke. I wish I could reproduce the fine extempore speech made by Rufus which so greatly pleased the gathering.

Attached are the speeches made by Payot and myself, although in my case I departed from the text to the extent of twenty minutes recalling the necessity for, and methods followed, in establishing the Military Board of Allied Supply, operating behind the lines in the zone of the advance.

This, of course, is a hobby of mine. The military Board of Allied Supply operating for the last four months of the war represents the last step evolved in the handling of Allied armies on the principles of one army. It was designed to effect a military unification of the rear of the Allied armies to match the unification of the front under Marshal Foch. Told the meeting of the final completion of the report of the Military Board of Allied Supply which is now being published by the United States Government, and which will always be studied in the future by students of military science.

ADDRESS OF GENERAL PAYOT, ASSISTANT CHIEF OF
STAFF, 4TH BUREAU, FRENCH ARMY, DURING THE
WAR

My dear Friend:

You are surrounded by comrades of the war, all of whom have worked with you either in the Services of Supplies or in the Services of Communications. By reason of the fact that they were distributed all along the Belgian, British, American, French Front, it has not been possible for you to meet every one of them, but all knew you and know how efficient your activities have been for Allied Union and for Victory.

If the Allies found no difficulty in pooling their blood as became brave men who were decided to offer their lives for the sake of country, justice and liberty, they showed much less enthusiasm towards pooling their material resources. You were the one who conceived the great and noble idea of pooling them. All your energy was used towards securing the creation of the Military Board of Allied Supply. Thanks to you, the Board was enabled to pool all the Allied supplies each time it became necessary to do so with the success of military operations in view. I wish to recall the fact that when, in July 1918, I requested you to pool the ammunition and the supplies of gasoline and kerosene of the

American and French armies, you immediately agreed to do so. Also the handing over to me of flour from American army supplies enabled me to supply the French armies at a critical period. Finally, the Military Board of Allied Supply accomplished the unity of Allied Communications through the creation of inter-Allied schools for Motor Transport and Railroad Traffic.

Therefore, your appointment as President of the Committee of Experts with the Reparation Commission caused a great joy to all of us. As in 1918, you come at the most critical stage of the fight. An economical, bloodless fight to be true, but one no less critical and vital than the other. As in 1918, you come with the same broad-mindedness, the same energy, the same will to secure unity among the Allies and the triumph of their just cause.

The wonderful address you delivered at the first meeting of the Committee of Experts showed to all of us that as a great financier, as the master in the science of restoring financial systems deteriorated by the war, you display the same enthusiasm, the same will-power, the same utter unselfishness as you did as a soldier in 1918.

Your presence at this place, in the midst of your comrades in arms, is another proof of it. All of us here, who have again become peaceful

citizens; industrial workers, engineers, diplomats, officials, soldiers, we feel proud and happy that you so bravely undertake this great work, and, knowing you as we do, we feel sure of success, and all the more so in seeing on your side such trusted friends as Mr. Owen Young, Mr. Robinson, Mr. Rufus Dawes, Mr. Crocker and all the members of the American Delegation on the Committee of Experts.

General, we raise our glasses to you and to the American experts.

ADDRESS OF GENERAL DAWES

It is a welcome privilege to me to meet again the war-time friends of the Supply Service of the French Army with whom I worked in such close contact during the supply emergencies of the Great War.

It is with emotion and gratitude that I have listened to the words of General Payot, the head of the Fourth Bureau of the General Staff of the French Army, during the time that the American Army was in France.

The supply officers of the American Army, early arriving in France, started to work in a supply crisis which lasted continuously throughout the war.

In the science of emergency army supply General Payot with the accumulated experience of nearly three years of desperate warfare, with his ability, energy, power of vision and realization, became both our example and our teacher. Not only did the American Army benefit from his invaluable co-operation, but when he became President of the Military Board of Allied Supply—an organization charged with the co-ordination of the supplies for the armies operating in the front under Marshal Foch—all the Allied Armies shared that benefit. It was on his proposal that our American batteries could draw upon French ammunition dumps in the zone of the advance and, as evidencing our own shortage in supplies, I will say here that the American Army fired exclusively French ammunition from French artillery.

It was upon his suggestion also that the camion and truck service of the Allied Armies in the zone of the advance was co-ordinated—the complicated details of which were so ably worked out by Commander Doumenc, who sits before me. The Rozoy School was founded by him, where French officers instructed American officers in automobile traffic rules in the zone of the advance and taught them to resolve the difficult situations which occurred incessantly in actual automobile transports at the front.

It is with great pleasure that I note the presence of M. Descubes and other distinguished railroad engineers, of General Havard, of Colonel Girard and Commander Denis, Chiefs of Automobile Service, of Commander Brault, Secretary of the Military Board of Allied Supply, and of other functionaries and officers who were part of the Inter-Allied General Headquarters.

I again assure you of my happiness in finding myself among my old comrades, once again in France—a country so near the hearts of all members of the American Army who were here during the Great War.

Our sub-committee on German currency had Dr. Schacht before them to-day. He appears before the full Committee Monday.

Have not yet received the translation of Poincaré's speech in the Chamber of Deputies yesterday, but extracts published in the press indicate his co-operation in solving the business relations in the Ruhr and unoccupied Germany.

PARIS, Sunday, January 20, 1924

Last night we had dinner at the fine home of Maurice Bunau-Varilla of the *Matin*. The others present were Ambassador Herrick, H. M.

Robinson, Stephen Lausanne, Marcel Knecht and Mr. Varilla's wife, son and daughter.

I am attaching hereto the portion of the speech of President Poincaré, referring to the work of our Committee and my opening speech, which he made in the Chamber of Deputies on January 18th.

SPEECH OF M. POINCARÉ

Germany is employing to-day, on the eve of the elections, desperate means. She expects to shake the legitimate confidence which our country has in itself, in its resources, in its vitality, in its future. She thinks that she may worry our country, discourage it, upset it, and profit later from the disorder which she will have created. Vain hopes and false calculations! France will keep her sang-froid and will remain unshaken in her resolutions. I do not doubt any more than the Honorable Mr. Herriot that the expert inquiry started under such happy auspices at the instance of the Reparation Commission will largely facilitate our task.

This expert inquiry has been undertaken, and I congratulate myself greatly on this, by all the Allies in common, and America has herself consented to take an active part therein. But (it must not be too much forgotten) it is to the French

Government that credit is due for the initiative of this inquiry. It is the French Government which on November 10th last requested that, in accordance with Article 234 of the Treaty of Versailles, the Reparation Commission should designate experts not, as had been tried up to this time, to determine Germany's perpetual capacity to pay, but to appreciate at the present time her real resources.

I did not want, Gentlemen, to accept previously, and this in full agreement, I believe, with the Chamber of the Senate, I did not want to accept the German idea taken up again a year ago by the British Government, of a conference which would have had for its object the definitive and lump sum determination of Germany's so-called capacity to pay.

I have superabundantly set forth in the Chamber, and Mr. Blum himself set it forth after me, that under this cover we could only reach results entirely contrary to economic science, and that moreover under this cover it was in reality desired to reduce Germany's debt.

Mr. Herriot, who no more than I wishes this reduction, however, accepts that experts appointed by the Reparation Commission shall be free to consider this, because we would remain ourselves in a position to oppose it or then to request corre-

spondent reduction of inter-Allied debts.

I will take the liberty to reply to the Honorable Mr. Herriot that to-day, before any inquiry may have been recommenced for a reduction of the German debt, England often proposed to us a reduction in our credit without ever consenting up to this time to a corresponding advantage on inter-Allied debts. An inquiry which would strengthen these pretensions evidently would not lead her to more benevolence.

This inquiry would furthermore have the grave inconvenience of destroying the Treaty of Versailles and to bring back for consideration prior decisions of the Reparation Commission. In all respects it would therefore lead us to an impasse. It was better (this is at least what the Government thinks) to understand this beforehand, and not to enter an alley without exit.

The excellent address of Mr. Dawes, one of the American experts, permits us to think that all peril of this kind is warded off, that Article 234 of the Treaty of Versailles will be respected, that the sophism of the definite capacity of payment will not deceive the two Committees of Experts, and that these may continue in all independence a task very vast and very important in itself.

We heartily rejoiced to see this co-operation of the Allies establish itself in this manner within the

scope of the Treaty with the precious co-operation of our friends of America.

One of the Committees of Experts is therefore going to seek the best means of balancing the budget of the Reich ; it will also have to find the measures to be taken really to stabilize the German currency.

The other Committee studies the means of valuing and bringing back into Germany capital hidden abroad. It will perhaps give to us some indications and some advice which will not be negligible, to settle on our side the question which I took up this morning with the Finance Committee.

In our minds the work of these Committees will constitute in any case a first step towards a general settlement. This general settlement has been prepared by us for a long time, and we have indicated its broad lines in our Yellow Books. Some newspapers sometimes reproach the French Government with not having presented as yet what they call a constructive plan. Some months ago we communicated one to our Allies. The Chambers have known for a long time what to think of the figures. We requested a minimum of 26 milliards of gold marks corresponding to our percentage in " A " and " B " obligations. We have accepted to have recourse against Germany

for the balance of our credit only in the measure that we are called upon to pay inter-Allied debts. As to the means of payment, we proposed that the Allies first agree to exploit, in common with the minimum of military occupation (and in this respect we have already proceeded with regroupings which lighten this occupation), the pledges of the Ruhr and of the Rhineland. Then we proposed that the Allies agree to request of Germany in non-occupied territories some complementary pledges. In this respect, Gentlemen, we are in full agreement, as on all other points, with the Belgian Government, whose very complete and very interesting plan has many parts in common with ours, and has nothing incompatible with our views.

The work of the experts must therefore especially bear on the following points:

To try to introduce into Germany a sane and stable currency, to establish during a period to be determined the supervision of the German budget, also to establish a supervision over certain resources of Germany, so as to use them as financial pledges for the payment of the annuities, or preferably, as I stated, as the security for the placing of loans.

These resources which it may be possible to use as security are, among others, as indicated in the Franco-Belgian studies ; the customs, the rail-

roads, the coal mines, the electrical industry, the tobacco and spirit monopolies, and other receipts of the same kind.

The experts will try, on the other hand, to find German capital hidden abroad, and they will propose to the Reparation Commission, it may be, to have the German Government take the necessary measures to facilitate these inquiries.

When all this is done, they will indicate to the Commission, which naturally will remain, as stated in the Treaty, the master of its own decisions, what are the payments which Germany appears to them capable of making in the coming years, that is to say, during the period of reconstruction and restoration which will be fixed by the Commission on the proposals of the experts.

As to ourselves, we will request the experts to include in the system which they will consider, the supervision exercised by the Belgian and French Governments on the pledges we hold in the occupied territories.

The French and Belgian authorities, or preferably, if the other Allies consented (and we wish they would consent), the inter-Allied authorities must continue this supervision and, in any way, once the necessary resources to pay the expenses of the occupation and of exploitation of the pledges shall have been previously deducted, the excess (as

I have always stated) will be paid into the Reparation Commission and distributed among the Allies, all the Allies, in proportion to their rights.

Once in possession of this work of the experts, the Commission will be able to determine, in complete freedom of action, the amount of concessions in capital it will deem possible to immediately request for Germany. These cessions, we believe, might bear especially on the railroads of the occupied territory which should be conceded to an inter-Allied society, and which would thus serve at the same time as reparation payment and as guarantee for the security of France and of Belgium, *i.e.* in definitive, for the maintenance of the world peace.

These cessions, according to us, should also bear on some participations in certain Ruhr mines, in order that France be assured in the future to receive the coal which was not regularly supplied to her in spite of the provisions of the Peace Treaty. They should at least bear on other participations granted to all the Allies, either in certain industries or in certain productions of Germany.

Naturally, at the same time, we shall request the French delegation to insist for the Commission to determine the amounts of the annuities to be paid by Germany during the years 1924, 1925 and 1926, that is to say, the period during which the

Commission has, by virtue of the Treaty, the right to prescribe by a majority vote, some delays, some extensions of date, some total or partial postponements for the settlement of the obligation.

We shall request our delegates to invite the Commission to examine at any time whether it is possible to issue, as it is desirable, some loans secured by the yield of the pledges under supervision.

Naturally, all will depend on the firm will of Germany to execute her engagements, on the restoration of her credits and on the condition of her financial market.

But the French Government remains, as concerns the loans, in the dispositions it has always affirmed, especially when it presented its broad plan at the Conference of January 1923, and when it developed this plan in the following August. It is one of the reasons which have led it to propose itself as a programme of work the Franco-Belgian studies of which Mr. Jaspar was speaking the day before yesterday.

We have always accepted in principle that a part of these loans be applied to Germany in order to help her in restoring her finances; but we would find it unjust and unacceptable if this application to Germany of a fraction of the yield of the loans was made without first applying to the Allies the

most considerable portion destined to reparations.

We shall request that this so important task of the experts and of the Commission be made as rapidly as possible, without again bringing back, I repeat, the question of the fixation of the German debt, and without bringing back into discussion the theoretical problem which Mr. Dawes so wittily mentioned the other day; and we hope that this settlement to be reached, will result in a rather short time in payments of capital by cession and loan, in order to hasten the execution of the Treaty, and to rid as soon as possible the world from the nightmare of reparations, and also if possible of the obsession of inter-Allied debts.

Here are briefly the ideas which we have submitted to the Reparation Commission and which we will submit with more details to our delegation so that the latter may transmit them to the experts.

Mr. Herriot here interrupted.

One effect of my address was intended to clear from the minds of all the idea that constructive work on the part of our Committee was dependent on the prior revision of total reparations. The reception of my speech in France, the United States, England, Belgium, and even Germany, would indicate that it has been useful in doing this.

I construe Poincaré's speech as indicating that France will not interpose objection to the re-establishment of normal business relations between the Ruhr and unoccupied Germany, providing France and Belgium with diminished forces retain control of the Ruhr simply as a gauge.

Inter-Allied control of receipts, except those necessary for the cost of army occupation—*i.e.* economic control—means the resumption of free interchange in internal Germany without forced diversion of the Ruhr business into unnatural and uneconomic channels to France. What goes there naturally, of course, will not be affected either.

It seems to me that Poincaré's speech is designed to help us.

Mr. Francqui, who, with his wife, took lunch with us, also thinks so.

The examination yesterday of Dr. Schacht by our sub-committee, developed a surprising similarity of views on his part and theirs on the steps which should be taken in stabilizing the German currency. I will not go into this subject here. Later, as the plan is developed, will be time.

Francqui is, I think I said before, very clear-headed and able. He is an ideal business cross-examiner. He told me something of his interesting career—of his young manhood in the Congo—of his residence in China—of his manufacturing

radium—of his banks. All this with modesty. He is one of the most valuable members of our Committee.

Young's remarkable qualities are more apparent every day. He is now engaged in an effort to have the scope of the Second Committee work enlarged by the Reparation Commission. I hope he succeeds in this. He has already enlisted in the effort our own Committee. It would be a pity if men of such outstanding ability and accomplishment as McKenna of Britain and Robinson of our own country are not used to the utmost.

My nephew, Carlos, spent the day with us. He and Jean are having a fine time. Jean makes friends wherever she goes, and is a joy to us all.

Kemmerer and Davis, two of our experts, came to the room this afternoon with Rufus. If I have said anything reflecting on experts generally, I want to retract it as to these two men. In breadth of knowledge, arising not only from talent but experience in practical suggestion and quickness of perception, they are unique, and excite my admiration.

If I seem to praise my associates in this work too much, I have this to say: I have never worked with so many remarkable men. Take Colonel Logan, for instance, to whose constructive work the American Expeditionary Forces owed so much

when he was G1 of the General Staff, and who was such an invaluable friend to me in the war. In my judgment, to Colonel Logan, as much as to anyone else, is due the existence of this Committee and the presence of Americans thereon. In the background, with infinite patience, wisdom and industry he has helped build the stage upon which we tread.

When history is written, he should receive a place, but he is so given to sacrificing the semblance to the substance of accomplishment and has so much instinctive modesty, that it will never be through his self-exploitation.

As "unofficial observer" of the United States on the Reparation Commission, he has really been the Ambassador of the United States to Europe for the last four years.

PARIS, January 21, 1924

Have just returned from a dinner given to the Expert Committees by M. Poincaré. The members of the Reparation Commission were also present. Took Madame Poincaré in to dinner.

This afternoon our full Committee heard and questioned Dr. Schacht of the Reichsbank. He asked to be allowed to start a gold bank of issue, something upon which our Committee had already

come to a practical understanding. After Dr. Schacht's departure, the quick mind of Young rose to the occasion. He told the Committee that we must act at once. If Schacht went back to Berlin without our action, he would establish with our implied assent his own conception of the relations of the Reichsbank to the new gold bank of issue.

Young and I talked over the situation after we got back from the Poincaré dinner. He is now working at a statement to be adopted by our Committee. I favor giving it immediate publicity. If we do not, we lose the initiative. Not only Germany's but Schacht's pride is involved in starting the plan. But if Schacht starts it, Allied co-operation, which is essential, may be put in jeopardy.

It is not only best for Germany, but best for the Allies, that Germany proceed in such a way that the interest of the Allies is generally recognized in the world as well as in Germany, as being protected at every step.

It is a case which requires quick action, and my guess is that it will be taken. Certainly if our Committee is to retain its full power and prestige we should act without dilly-dallying. This has too often obstructed effective Allied co-operation in the past. There is everything in initiative and first

statement. We must keep in our work the invaluable asset of general public confidence, not only in our integrity, but in our capacity to act in an emergency.

Schacht was before our Committee for three hours. He is very clear in his statements, and sound in his political economy. We will see what tomorrow will bring forth.

Have already talked along the above lines with Kindersley, Stamp and Francqui at the Poincaré dinner, and with Parmentier right after our adjournment this afternoon.

PARIS, January 23, 1924

Two very important days have passed. Dr. Schacht came before our Committee again yesterday afternoon. At the morning session we decided on the form of a short *communiqué* which I attach.

COMMUNIQUE

The Committee of Experts, appointed by the Reparation Commission to consider the stabilization of the currency of Germany and the balancing of the budget, has reached the opinion that an independent gold bank should be established, partly by mobilizing some part of the free reserves

of gold and foreign currencies which may exist in the hands of German nationals, and which at present discharge no economic function, and partly by the co-operation of foreign capital. In their view such a step will form part of the ultimate plan to secure budget equilibrium and stable currency.

In this connection, the Committee think that some of the features of the plan outlined before them yesterday by Dr. Schacht will prove in due course to be very useful, and they were glad to have the advantage of his views as a part of the whole field of possible or alternative action to be reviewed.

The president of the Committee has heretofore emphasized the need of Allied unification in a program. The Committee is convinced that foreign co-operation in the management of such a bank is similarly desirable for ultimate success.

The Committee, in view of the necessity of prompt decision and action, has advised Dr. Schacht that it will discuss a definite plan at Berlin on Wednesday, January 30th.

Sir Josiah Stamp's ability for condensation was commandeered. With such a practical Committee, little time was consumed in the discussion of what was to be done.

In the afternoon the questions put to Schacht

were general. He made a remarkable revelation of character. His pride is equalled only by his ability and desire for domination. He frankly intimated that as long as he was president of the Reichsbank, he was the bank—that whatever changes were made in its constitution, they should be such as fortified this conception.

He pleaded for the minimum of outside control over internal business in Germany, but admitted the necessity of a modicum of it. He was not concerned so much with details as with principles. He is a type of the man whom emergency and crisis force into power. At the same time, his presentation of his case and his personality had the effect of instilling caution into the Committee. It served to impress upon us the importance of the clear definition of the extent of outside authority which our plan must evoke, and the methods of its exercise.

Yesterday evening we dined with Sir Robert and Lady Kindersley. Others present were Sir Josiah Stamp and Sir Robert's sister.

To-day was especially important. We did not meet until 4 P.M. The progress made was remarkable. We all realized that when we are in Berlin next week, we must have the bank plan worked out to be presented to the Germans for their observations. But this also involves the necessity of a

preliminary consideration of the changed conditions confronting the bank, with a balanced budget, and prospective reparation payment in sight.

Young, at the opening of the meeting, made one of those sensible and illuminating statements which are so valuable in shaping important policy.

Its completeness resulted in practical unanimity of accord, and its effect will be greatly to facilitate our progress. The events of the past two days have demonstrated not only that the Committee desires to act quickly, but that it must act quickly. This, the fine equipment of mind and information of men like Stamp, Kindersley, Parmentier, Francqui, Houtart, Pirelli, Allix and Flora, made possible. Young's statement made possible the precipitation of their talent and knowledge into concrete progress. Let me see if I can hastily and imperfectly summarize it.

1st. The formation of the bank will stabilize currency and make possible the resumption of productivity.

2nd. The formation of a budget must be fundamentally based upon the principle that from the start the burdens of taxation borne by Germans must not be less than the highest borne by the citizens of any of the Allied nations.

3rd. That, irrespective of the questions of its exportability, *i.e.* its availability for the payment

of external reparations, the German Government will then accumulate a balance which should be deposited in the gold bank, thus contributing to its strength as a rejuvenating agent in German internal business.

4th. Questions of to what extent the surplus deposit can be transferred to the payment of external reparations without crippling the bank are to be considered in the future.

5th. We must go to Berlin prepared to discuss the budget on general principles. We must start out by giving the Germans the total they must raise in taxes to make their burden equal to the burden borne by their victims. They will then tell us what they can or cannot do, and we will cross-examine them with expert assistance in this connection.

In other words, we are faced with the necessity of considering and formulating as quickly as possible our whole plan.

All agreed in a discussion which brought out many interesting points. The sub-committees are to meet to-morrow morning to consider certain agenda which the full Committee proposed.

To-night Allix, Pirelli, Captain and Mrs. de Marenches and Dr. Flora dine with us.

PARIS, January 24, 1924

The sub-committee having been at work during the day, the plenary meeting of the full Committee was held at 4 P.M.

Reports of both sub-committees embodying their progress were submitted and discussed. Much progress was made. Both are to continue their work.

In the early afternoon, Dr. Schacht called on me at the hotel to pay his respects before his departure for Berlin to-night. He re-stated some of the points he had made in his Committee presentation. He said he understood we desired some other man as the head of the Reichsbank. I rather inferred this was an indirect request for information. Told him that the matter had not been discussed or considered by the Committee—that prior to his coming it seemed the opinion of the Committee that internal administration as a matter of principle was best conducted by those on the ground acquainted with and experienced in it—that since his testimony nobody could regard him as not unusually equipped for his place.

He reiterated the desire of Germany to co-operate with the Committee in reaching a solution of present problems.

To-morrow we hear the railway experts.

Rufus and the experts are giving us invaluable aid. Kemmerer, Davis, Goldsmith, Herring and Tower have all established reputations; but one had to come into contact with their unusual work to understand how helpful they are in these perplexing questions.

As for the Committee itself, I have never been associated with a group of men so remarkably adapted to their specific task. They are unique, and I believe their work will demonstrate the truth of my estimate.

Sir Josiah Stamp said the sub-committee on the budget would like me to preside; but I thought it best to decline and leave the place to one of the other members. Surely I have already more honor than I deserve. Besides this is their work—they have long studied it and understand its complex details. I could add nothing in a sub-committee which I could not contribute in the consideration of the subject at a plenary meeting of the full Committee.

PARIS, January 26, 1924

Yesterday the Committee had two sessions, consuming five hours. They were devoted to hearing the railroad experts, Sir William Acworth and Mr. Leverage, the French expert. They were in practical agreement and gave a very clear and

illuminating exposition of the subject.

In the evening, I had Parmentier and Houtart at dinner and we talked over their conclusions and the action we should take thereon.

At the session of the Committee this morning I made an opening statement designed to focus the discussion upon principles and divert it from details. Was rather emphatic. For four years the Reparation Commission have dealt with experts. Here we had before us in substantial agreement probably the two greatest experts upon the European railway situation. Already we had, in my judgment, the basis of our recommendation. We should not go too far into details. The experts had told us what, under proper management, we might expect in the way of earnings from the German railways. We should use this as a basis for the recommendation for the issue of railway bonds in a specific amount—that the French wanted to see something tangible in the way of reparations as soon as possible—that if we embarked upon a lengthy expert examination of the details of the railways, we would have embarked our prospective settlement again upon the seas of delay and difference. My own opinion was that in six months we would know no more and probably less for our purposes than if we drew up our report upon the

basis of what the experts and ourselves agreed upon now. We must draw a full picture. The railways are but one element in it. We must dispose of them now. By the end of the session, this, in general, seemed the consensus of opinion. Action is the by-word. We must reach agreement.

Young and I were entertained at lunch to-day by the owner of the *Petit Parisien*. About fifteen were present. Among them were Marshal Foch, the President of the French Senate, M. Doumergue, the Minister of Finance, M. de Lasteyrie, the Governor of the Bank of France, the Vice-President of the Senate and several Senators. Short speeches were made by Senator Dupuy, Young and myself.

I had a most interesting reunion with Foch. He recalled my promise made to him in America to give up cigars for a pipe, and I took my pipe from my pocket to prove my continuous observance of it.

I told him that public opinion in the world would never excuse our Committee if, in our report, we were guilty of indefiniteness or timidity. He emphatically agreed. He discussed with great intelligence our problems. Asked me if I had seen Payot and talked over old war comrades.

Everybody seemed hopeful.

PARIS, January 27, 1924

It occurs to me to put down some of the striking things Foch said in the course of our talk yesterday.

“In the central command,” said he, “I was handed a big sword.” Again: “I was not troubled by the many dinners and large gatherings in America.” “After the war everything is little.” Again: “In the contests of peace one has to listen to long speeches, but then no one dies while they are being made.” “In war it is different.”

He seems in virile health, much better than in the war. He is full of nervous energy, remarkable in a man of his age. He neither acts nor looks like an old man.

To-morrow we leave for Germany in the evening. We meet as a full committee at 10 A.M. Afterwards we will divide work during the day between the sub-committees on the two subjects.

At 1 P.M. I go to lunch with General Ragueneau, of the French General Staff, an old friend with whose aid early in the advent of the American Expeditionary Forces General Pershing and I arranged the machinery for co-ordinating our supply procurement work with the French Government and army. He will have present also General Payot and Colonel Logan. General Pershing is still at Cannes.

Will probably not have time to add to these notes to-morrow. Everything looks favorable. The attitude of the French Government indicates that we can assume the present economic barrier between the Ruhr and unoccupied Germany will be abandoned in favor of our plan. That is the only possible real obstacle to our success, in my judgment, and it will be removed.

Hope we can get through by March 1st.

If our plan is well conceived, public sentiment will overthrow any Government opposing it. The pressure of necessity is behind us, and our conclusions. It will choke the railings of those pests of earth, the Nationalistic demagogues, who would block peace and happiness for others for a little cheap applause for themselves. Always, in times of real crisis both in war and peace, these gentlemen disappear for there is danger in decided attitudes.

After the crisis and the danger is passed, the yellow dogs resume their yelping.

BERLIN, January 31, 1924

We left Paris last Monday evening on a special train, the first through train run since the war from Paris to Berlin. In addition to the ten members of the Committee, there were about fifty, com-

prising the staff of experts of the different countries and secretaries.

On the train, the Committee discussed informally the general strategy of approach to our work in Germany, as well as the various phases of the general problem.

We reached Berlin Tuesday evening. Went to the Esplanade Hotel. The next morning (yesterday) we held our meeting and decided on method of procedure, issued a *communiqué* and divided into the two sub-committees for work in the afternoon.

As a matter of fact, the afternoon was partly given to the important effort of gathering ideas of the relative position of prospective witnesses, the weight to be attached to them, etc., and the sounding out informally of German business opinion on the broad features of the bank plan, which is now pretty well decided upon.

An informal meeting of our sub-committee on the bank is being held with Dr. Schacht this morning. Schacht's plan, as outlined in Paris, was not intended to cover the whole currency situation, including the rentenmarks, whereas our committee thinks that such a course is practicable now.

The reconciling of the two plans, after being first discussed informally, will be taken up by the full Committee at 3 P.M. to-day.

The fact that our Committee is so constantly together and so congenial in their personal relations is very helpful in every way. Many delicate situations have to be discussed. Take for instance the question of public or private control of the German railways—how shall it be handled—if at all—in the report?

My mind is much upon the best final form of the report in its relation to world public sentiment. It is there that I have my usefulness, if any, because of lack of absorption in the details of the plan, which should leave one's eyes open to the effect of its broader outlines on public sentiment.

The perspective of Young in these matters is remarkable. He sees the general relation of things. His logic is unanswerable—his common sense continuous. He inspires confidence in everybody. He is generous in every way and makes everybody like him. He is of that rare species—a man of great caution combined with daring. We must get our report in such shape that it is a document for the man in the street. It must be self-explanatory.

Yesterday evening, at 6 P.M., our Committee went to the Chancellory on Wilhelmstrasse, where we met Chancellor Marx and the other German Ministers. We met formally in what they told me afterwards was Bismarck's old office as Chancellor, and that it was unchanged since his time. Perhaps

it was unchanged, but if Bismarck's ghost was there, he would have dissented from this idea.

Had not expected to make any remarks, but as we left for the visit by automobile, Dr. Meyer told me that the Chancellor would formally address us. Will attach Marx's speech and my reply thereto.

WELCOMING REMARKS OF CHANCELLOR MARX

I am glad that an opportunity is offered me of welcoming you here in the name of the German Government after a decision taken by the Reparation Commission on November 30th last has entrusted you with the task to look for ways and means of establishing equilibrium in the German budget as well as for the measures to be taken with a view of stabilizing German currency. The German Government thankfully appreciates that you have come here in order to examine on the spot the situation existing in Germany. Our Governmental Departments will leave nothing undone that may be of assistance to you in the accomplishment of your task, which is so difficult and involves so heavy a responsibility.

Your desiderata will be considered and your questions will be answered with the utmost promptitude and in a spirit of unreserved frankness. In



FIRST COMMITTEE OF EXPERTS IN BERLIN—FEBRUARY 1924

Seated, left to right: A. Pirelli—E. Allix—J. Parmentier—Charles G. Dawes—Owen D. Young—R. M. Kindersley—J. G. Stamp—E. Francqui
 Standing, left to right: F. Flora—M. Houtart—A. McFadyen, Secretary

order to support you in your work, the German Government has caused materials and data for a study of German economy, German currency and German finance to be collected, which collection of data will shortly be handed to you. With a view to facilitating the official relations between the Committee and the German Government Departments, the German Kriegslastenkommission (War Burdens Commission), whose chairman is the State Secretary, Mr. Fischer, has been charged to represent, vis-à-vis you, the German Government. Moreover, there will be a special representative in the building placed at your disposal for the performance of your work, in order to be the recipient of your desiderata.

I replied as follows :

Your Excellency :

The Committee desires me to express our appreciation of the opportunity to meet you and your associates in the German Government.

As a Committee, we feel the great importance of a common understanding among the Allies upon some solution of the problems before us, in which understanding it is most desirable and important that the German Government participates. It is our hope that such an understanding will be

attained. We thank you for the assurance of your aid and co-operation.

As Young said to me, this meeting constituted the first real entry of the Allies into Berlin.

I can say this for our Committee, that they did not copy the Bismarck attitude toward the French in 1871, and try to make uncomfortable those gentlemen of the German Government who were offering to assist us.

Had Kindersley, Allix, Stamp, Houtart and Pirelli at dinner at the hotel.

BERLIN, February 1, 1924

The sub-committees are at work and only short meetings of the full Committee are held for reports of progress.

Schacht has presented his plan for a gold bank of issue which does not cover the rentenmark situation and is designed as a temporary expedient. It is now being studied. The Committee's more comprehensive plan will be outlined to him. The question is, will he go ahead without the Committee's approval, or will he go ahead with his plan so modified as to fit into the Committee's plan later? or again, will the two plans be amalgamated?

This matter will consume considerable time.

The budget figures which the German Government has first submitted are not sufficiently illuminating and additional figures are being requested. No report was therefore made by the Budget Committee. The figures, however, as to the burden of taxation borne by the people of Great Britain, which in general should serve as an evidence of the taxation rightfully to be borne by the German people hereafter, are near completion by Sir Josiah Stamp.

The study of Germany's commerce, currency and finance prepared by the German Government was placed in our hands to-day. It is fortunate that the Committee has the benefit of the logical and experienced mind of Sir Josiah Stamp in connection with the consideration of these budget matters. In them he is the master mind.

Berlin is sombre. I witnessed to-day the feeding of the children which is being pushed by the American Quakers, for whom a committee, of which I was chairman in Chicago, is raising money. It was a pathetic and moving sight.

BERLIN, February 3, 1924

Yesterday was given over to intensive work by the sub-committees. No plenary session was held. Had two conferences with prominent Germans—

one to-day with Mr. Bergmann. These related to the general terms.

Evidently business minds in Germany recognize that it must meet the situation without further hesitation or evasion. These terms of settlement in general are simple. Our problem is not complex in its largest aspects, but difficult in details. The budget, for instance, presents difficulties which only a mind like Sir Josiah Stamp's unravels without great loss of time. The world is fortunate that two men like Kindersley and Stamp represent Great Britain. By their great breadth of view, wisdom and fairness, they exercise great influence in all Committee matters.

Last night Young, Robinson, Rufus and I were at Mr. Ahlport's apartment for dinner with the American experts. They are not simply subjective experts, so to speak, but experts with years of practical experience putting in monetary systems in Mexico, Honduras, Argentine and the Philippines, and called in consultation constantly when action has to be taken in emergencies similar, though less momentous, than the one they now confront with us. They are for the most part from the organization of Herbert Hoover, who should always live in history—and that perhaps is the best statement to make in order to explain their qualifications.

We perhaps call upon Kemmerer and Davis most frequently—but continuously upon all.

On Friday night, Young, Robinson, Rufus and I went to Ambassador Houghton's for dinner.

Ago von Maltzan, State Secretary of Foreign Affairs, was there. Had a long talk with him. There were present also the Danish and Dutch Ambassadors. Talked with Prince Blücher about his ancestor at Waterloo. Found him very interesting. Took his brilliant wife in to dinner.

BERLIN, February 4, 1924

“ The sum-total of reparations ” and “ exportable surplus ”—how familiar to us these two phrases have become !

Constant reflection over them has destroyed the mental perspective of many who might have been more useful in negotiation in the past.

Herr Bergmann told me yesterday how firmly he had been of the opinion at first that the Mark never could be stabilized or economic Germany revived unless the sum-total of reparations was first fixed at a reasonable figure and how wrong he had been in this idea.

But it was the idea the world has had. No wonder that the situation has looked so hopeless for common agreement. Then, take the matter

of an "exportable surplus". Even the amateur economist knows that external debt must be met in the long run by the creation of an "exportable surplus".

Our international economists, however, considering the present condition of Germany, have so emphasized this apparent impracticability of producing for a long time any "exportable surplus" and then only a small one, that they seem to have persuaded themselves that our work will be futile.

Ruin, it is claimed, stares everybody in the face from the standpoint of "exportable surplus". It is remarkable how deadening an effect this "exportable surplus" argument has had upon everybody but the French. It has tended in and out of Germany to prevent business from taking "one step at a time", the only way business grows—national or private.

"An exportable surplus" in a country of limited natural resources like Germany, is the last flowering of a long growth. The question of the day is how to start the business of Germany on the upgrade.

It is significant of the practical make-up of our Committee, containing as it does economists of world reputation like Stamp and Parmentier, that we do not talk much of either total reparations or

exportable surplus. The question of total reparations, like the question of future "exportable surplus", will take care of itself hereafter if we will settle the real questions before us now.

Last night Young, Robinson, Rufus and I were at Ambassador Houghton's again. Houghton discussed the situation, of which he has most practical and clear idea.

BERLIN, February 5, 1924

The first draft of the bank plan has been worked out in detail. We are approaching some of the essential points of possible controversy. What substantial can be given to Poincaré for whatever tangible he gives us in the Ruhr in order that Germany, under a new plan, can put itself in shape to commence on a general reparation-paying effort? Many feel that if Germany be made strong enough to pay she will be strong enough to refuse to pay.

But what if she is not made strong enough to pay, does not Europe face disaster anyway?

It is clear that every program is attended by dangerous contingencies, but the only course we can take is the plain one—to assume that peace, well guarded, and not war, is the normal state of modern man.

Having resolved on that course, we must not

show timidity in our report lest those whose responsibility it is to act fail to act.

If action is not taken, Europe faces another dark age. There is always in great affairs a point where, if action is not taken, it is for ever too late. That point has now been reached.

We will leave here Saturday for Paris, according to our present plan. Francqui has rendered invaluable service in the bank plan. I hope we can present a plan by March 1st. From now until then the gists of the situation must be grappled with.

BERLIN, February 6, 1924

It seemed at the meeting of the Committee last night as if an adjournment would be taken for a week, commencing Saturday, primarily because it is necessary for Pirelli to go to Italy. This seemed to me a serious error. When in business a reorganization committee separates for a week, each man, after consulting with the security holders whom he represents, comes back to fight the battle over again. It is unwise to let the Committee at this particular stage of the work separate to consult their governments. That can come later.

Got the thing fixed up to my great relief, and the Committee will not recess. Pirelli acted very

handsomely about the matter and I feel grateful to him.

Reginald McKenna called on me again, and I think I have a matter adjusted between the two Expert Committees which might have caused trouble—*i.e.* the proposal for a joint meeting at which our bank plan would be presented to them. As the plan is one of negotiated necessities, it is undesirable to reopen debate on it in our Committee which a joint meeting might do.

Will not write further since I must take up the matter in our Committee, but hope I have hit upon the solution.

Sir William Acworth and Mr. Leverve have arrived with a completed railway report which we will consider at 5 P.M. to-day.

Visited another food station, this one conducted by the Chicago *Abendpost*.

BERLIN, February 6, 1924

After listening to the railroad experts, Sir William Acworth and Mr. Leverve, we had a long discussion as to methods of procedure from now on, and decided to-morrow to open for the first time a discussion of general policy, *i.e.* to develop points of difference without attempting to settle them.

I must record here something of Young's personal activities which are of greatest importance. Because of his business connections and high standing here in German business circles as well as because he is an American, no one of us possesses such influence as he among the German industrialists. The night after he arrived, he met Stresemann and outlined the main plank of our program, the just imposition of a scheme of German taxation which will impose a burden proportionate to that borne by the Allied nations. He also talked over the bank. Stresemann accepted, but imposed upon Young the task of bringing the Industrialists into line, who, Stresemann maintained, could block him and whose support was necessary if Germany was to make an honest effort.

Accordingly, Young single-handed has been in contact with Stinnes and the authorized industrial group. It would be improper for me to write without Mr. Young's consent the details of these important negotiations. At present it can be said that the Industrialists have agreed to support the principles announced, though it took three strenuous interviews and plain talking before Stinnes agreed. The nature of the objections, at first, centred around their own personal interests. Young, however, plainly pointed out that only two settle-

ments were possible—the economic or the military. If Germany declined the economic settlement so that delay only resulted, France would justify herself in applying the military settlement. Young said, “By that I do not mean war. But she will continue the military *status quo* over the Ruhr, its railways and customs, continuing to split economic Germany in twain; and a continuance of this means the abyss for both—Germany and France, if not Europe.”

There are no spectacles so opaque as those of selfish personal interest. I am not impressed with what I hear of M. Stinnes.

However, Germany cannot fall without this gentleman descending with her. Hence for his own interest he may co-operate in hers.

How fortunate we are in these personal negotiations with this able and ruthless man to have one like Young among us to deal with him. Fearless, honest, and of great ability—as an American, as well as a friend, I am proud of Young.

But again I say, as I said when France entered the Ruhr in January 1923, the French army has been the safeguard of Western civilization in Europe. If it were not for that army and its movement into the Ruhr, we would not be approaching what I believe will be a first settlement. Neither

would there have been a Committee of Experts here to-day. *

BERLIN, February 8, 1924

Gradually fundamental principles which have to be settled emerge from the varied work of the preparation of basic facts.

The Committee held a three-hours meeting

* (*Literary Digest*, January 27, 1923.)

“ In less than two years, predicts Gen. Charles G. Dawes, ‘ it will be universally recognized that the reasonable settlement of the reparations problems, which by that time should have been reached, was made possible by the French invasion of the Ruhr ’. Its effect, he thinks, will be to make both France and Germany more reasonable. In a telegram discussing the present crisis and its background, he says :

‘ The resumption of the orderly progress of civilization in Europe and the world depends upon a reasonable settlement of the reparations question under which, while proper reparations charges are met, the incentive to effort on the part of the German people is not destroyed. Nobody differs on this point, but nearly everybody, for four years, differed on how to bring it about. Public sentiment all over the world at the end of the war was like molten lava from a volcano, it was uncontrollable and not plastic. It has not yet had time to cool off everywhere. The position of the United States at the Versailles Conference was for reasonable reparations, but public sentiment in England and France at that time made agreement impossible. The power of international negotiators since the war has always been limited by public sentiment at home. Whenever a negotiator stood for common sense in advance of domestic public sentiment he was either compelled to change front as Lloyd George did, or leave office as did Briand. As time has gone on public sentiment in

this afternoon, and for almost the entire time considered an able statement of Francqui's involving

England and the United States has cooled down, so that common sense on the part of the masses is again reasserting itself, irrespective of nationalistic demagogues. The elemental changes in public sentiment, however, are determined by events and not by leaders. Germany, in the economic war following the Great War, has dealt with a coalition in disagreement between themselves, and this selfish disagreement among the Allies, together with the results of the planned degradation of the mark, has created the feeling among the German people that it is possible to avoid payment of proper reparations. No German Government, strong enough to enforce collection of the taxes involved by proper reparations, has been possible in Germany up to this time because this feeling existed. On the other hand, public sentiment in France, which suffered the most by the war, could not be solidified behind a Government strong enough to put through a proposition for reasonable reparations. To the protest of the German Government against the invasion of armed troops into a peaceful population the French national conscience answers "Belgium".

'The invasion of the Ruhr by France, therefore, is in my judgment essential, both to bring France to a realization that only a reasonable reparation can be collected and to bring Germany to the knowledge that it cannot avoid its payment. It should be remembered that the great French army to-day is the safeguard of civilization in Western Europe. No one need fear Bolshevism at this time in Germany, pending the inevitable ultimate decision of the German people to form such a firm Government that it can take the economic measures which will get them rid of the French army, just as France did when the German army in 1871 occupied Paris. At the same time demonstration of the impossibility of the collection by armed forces of reparations directly from the German population, the underlying common

the principle of guarantees in the payment of reparations.

The Belgian idea is that the proper and safe business sense of France, which needs money, the fact that she now is dominating the situation and will not have a compromise forced on her by others, will bring French sentiment the more speedily to the reasonable view. Stinnes, the leading business man of Germany, in a recent address before the German Economic Council, and Louis Loucheur, the leading business man of France, in an address before the Chamber of Deputies, have each outlined in terms of reason the solution of the reparations question. As Stinnes says, the mark cannot be permanently stabilized by an international credit. Germany can stabilize the mark and pay its reparations only by an exportable surplus of material, and can only create that surplus by a ten-hour day's work instead of an eight-hour day.

'Loucheur's speech is practically to the same effect. The last event in my judgment necessary to bring France and Germany to a common-sense reparations settlement was the invasion of the Ruhr district by France. I realize fully that what I have said is not the present view generally of the press of the United States or of our people. I have not discussed the matter from the standpoint of right or wrong. This immediate situation is not one in which long-distance academic discussions will have much effect upon European realities. The last four years show that in international matters events determine policies rather than that policies determine events. Two things are especially desirable in the United States—less demagogery in Senate debates, where the pleasing of uninformed local constituencies is an element in discussion, and more trust in the strength and wisdom of President Harding, who firmly, and taking one step at a time, is moving in the right direction. In my judgment the United States must face with courage instead of cowardice its unavoidable responsibilities, and I do not believe the

method of procedure is not simply to fix the annual sums which Germany must pay and let her determine the methods of raising it, but for several reasons to segregate certain sources of revenue which shall be directly devoted under pledge to the payment of reparations, leaving the other sources of revenue to the Reich for administrative purposes primarily.

Certain generalizations made by Francqui in his statement are very convincing. The views set forth have been discussed in principle heretofore between the French and Belgian Governments. Indeed, Poincaré's speech on the subject of the Expert Committee in the Chamber of Deputies refers to them as coinciding with the ideas of France.

Francqui's statement is very illuminating. Clearly we have got to recognize the principle

policy of scuttle can with safety be ridden much longer by the demagog. Moral principle, the dictates of humanity, as well as economic self-interest, all combined, will force the United States, with unimpaired sovereignty maintained, into that field of international duty which since the war it has not fully entered. In my judgment, irrespective of the present condemnation by the American press of the French move, it will be universally recognized and acknowledged long within two years of this time that the reasonable settlement of the reparations problems, which by that time should have been reached, was made possible by the situation precipitated by the French invasion of the Ruhr.' "

of guarantees if we are to get a settlement of the Ruhr question in the interests of a restoration of economic Germany.

France and Belgium are going to demand these assurances—tangible in nature—before consenting to alteration of the *status quo*. The question is to what extent and under what functioning machinery shall they be granted.

As to railways, there is no dissent from the proposition that they should be a “gage”, for they belong to the Reich. As to the proposed monopolies of tobacco, alcohol, etc., most important questions are involved. Should these taxes be collected in this way?

The proposals relative to the taxation of profits arising out of the depreciation of the mark involve still more difficult questions.

But the fact remains that the Committee must recommend an exchange of something tangible for what is given up in the Ruhr, and they will be in the nature of guarantees, recognizing, as does the bank plan, the principle of outside control.

The sub-committee on the bank is in contact with a serious situation in current banking and business conditions. A sudden very large demand has sprung up for foreign exchange. The banks are alarmed. Is it a business or a panic demand? It makes little difference if it cannot be met. The

bottom may drop out from under the poor currency even now existing, and the rentenmark commence to slide. The banks are hanging by a thread. How important an element is time ! But I have never known of a more industrious Committee.

Some, like Stamp, are working so hard that I am afraid their strength is being over-taxed.

BERLIN, February 8, 1924

All papers publish lengthy reports of a speech made by Dr. Schacht at Koenigsberg. Dr. Schacht declared that no other state had ever had such taxation burdens as Germany. The present taxes of the farmers, he declared, amount to more than half of their net incomes. Considering the decrease in production, these taxes really amount to two-thirds of the income. Such burdens are possible merely temporarily and during a transition period, and this is especially true in view of the loss of working capital through currency deflation, and the collapse of the formerly so highly developed co-operative organization. Of the 600 million rentenmark credits thus far issued by the Reichsbank, 250 millions had gone to the agriculturalists. The production of Germany as a whole has greatly decreased.

Of the financial situation, Dr. Schacht said, after having referred to the necessity of bettering conditions :

“ To this end we require the organization of a gold note bank. Alongside the Rentenbank, we must create a fund having international currency value, in order that the rentenmark may not come into direct connection with foreign currency and thus become an object of speculation. We must prevent the rentenmark being sold as gold to foreign countries. But since we need connections with other countries and therefore require a currency which is valid abroad and which can be based only on gold, we must establish this fund in some manner. There are two arguments that speak in favor of creating this fund in the form of a bank.

“ For many months I have been battling for the formation of a gold note bank, which, it goes without saying, can be created only in connection with the Reichsbank and the Rentenbank, for we must naturally centralize our currency policy in one place. From the first day on which I was appointed President of the Reichsbank, I took the most immediate steps to bring about the creation of the gold bank. During the negotiations in London and Amsterdam I received the impression that our currency situation is thoroughly under-

stood abroad, that, in their own interest, all countries that have economic relations with us realize the necessity of the creation of a German gold bank, and that there exists a certain interest in helping us create it. In the midst of this work I was summoned before the Experts Commission in Paris, and I explained my ideas there. In part I encountered lively agreement, but in part I found a feeling that it was not sufficient in the present circumstances to create a gold bank, but that a definite gold currency must be created for Germany. My answer to this was regularly : ‘ In principle I agree with you that we must some day again have a gold currency in Germany, and I shall be glad if you will help us reach such a solution. I am also ready to believe that you will succeed in reaching in a few weeks a final and unanimous decision as to this in the reports which you will make to the Reparation Commission. But the question then is, What will come from these reports? After all our experiences in reparations negotiations, I am forced to conclude that it will not be weeks, but months, before a united agreement of the Allied and Associated Powers will come from your report. And we haven’t time to wait so long.’

“For the revivifying of German industry, which is to-day occupied on the average to only

50 per cent of its capacity, we need gold credits and new gold capital, in order that it can compete on even terms in international trade. To-day we must support from three to four million unemployed or short-time workers from the funds of the State. That is a situation which is intolerable for a people like ours. We must in every event bring our production up to 100 per cent, no matter whether agriculture, industry, trade or what not. We must get out of the present horrible situation.

“ I have endeavored to make the gentlemen understand that only thus can anything be secured from us. If they do not accept this view, then we shall neither reach a healthy recuperation of our economic life nor will the Allied and Associated Governments be able to get any reparations from Germany. I hope that they will see this so clearly that they will not checkmate our efforts to create this gold bank, so that we may finally secure the instrument which will permit us to go ahead again, to work.”

The sub-committee on Currency, headed by Young, had a hectic day, but had matters so well in hand that the meeting of the full committee, at 5 P.M., to pass on them, was short.

During the day Kemmerer proposed the plan for measuring the reparations by a percentage tax

on Germany's gross income. The other American experts attached to Young and myself, concurred.

Had Kemmerer, Davis and Rufus at lunch and dinner yesterday. Kindersley also took dinner with us. We tried the plan on him there. He is thinking it over. Took it up with Stamp this noon.

As chairman of the sub-committee on the bank, it was Young who had to take leadership in settling matters with Schacht and getting a constructive agreement. He had a struggle with Francqui on the sub-committee, who did not want Schacht to proceed with his temporary gold bank or to have Young so expose the details of the Committee's plan as to secure Schacht's agreement to fit his bank into the Committee's eventual bank.

Kindersley and, at an opportune time in the debate, Professor Flora supported Young, and Francqui then agreed. As a result Young prevented a disagreement on this important matter with Schacht ; secured Schacht's endorsement of the *communiqué*, and prevented a lessening of general confidence which would not only have been reflected in the future work of the Committee, but would probably have demoralized the present currency system in Germany.

In my judgment he has saved the rentenmark at least until another crisis. Young has that quality of quick decision, especially important when public

psychology is an element in everything we do. If our Committee succeeds, we will owe him much.

In the evening, Young, Rufus, Crocker and I dined at Ambassador Houghton's. The latter is rendering most useful and constructive service in the Committee's work here. Houghton has a business man's reaction to what is necessary to be done here, and his suggestions and comments command our complete confidence.

Lord D'Abernon, the British Ambassador, was present and I tried Kemmerer's suggestion on him. He reacted favorably and very intelligently.

15 BELLEVUESTRASSE,
BERLIN, February 9, 1924

MEMORANDUM FOR MR. DAWES
(Subject : A possible Alternative Plan for
Reparation)

A reparation plan along the following lines I believe is worth consideration as a possible alternative to the plan now being developed.

Require Germany to pay to the Allies annually for a fixed period of years an amount representing a definite percentage, for example, 20 or 25 per cent of her total national and State revenues. If preferred, payments could be made annually for an indefinite period of years until a predetermined



COMMITTEE HEADQUARTERS IN BERLIN—FEBRUARY 1924

sum, principal and interest, has been paid. These annual payments might be in lieu of all other reparation payments or they might be supplemented by one or more other payments ; as, for example, a payment in the form of railway bonds.

Among the merits of this plan the following may be mentioned :

First. The plan makes the motives of the Germans and of the Allied peoples move concurrently instead of in opposite directions. The more Germany prospers, the more she will be able to pay and the larger will be the reparations* the Allies will receive. It will be to the interest of the Allies, therefore, to see Germany prosper.

Second. The uncertainties in connection with reparation payments arising from fluctuations in the value of gold, in terms of which amounts are stated, would be eliminated.**

(*) If a definite amount should be determined instead of a definite period of years, the sooner would full payment be made.

(**) From 1873 to 1896 the value of gold, as measured by its purchasing power, rose about 50 per cent. From 1896 to 1913 it fell about $33\frac{1}{3}$ per cent. From 1913 to May 1920 it fell about 60 per cent, and from May 1920 to the present time it has risen about 66 per cent. Great changes in the

value of gold in the future are not only possible but probable, and such changes might well play havoc with the real values represented by any definite sum of gold that should be agreed upon for reparation payments, thereby causing great injustice either to Germany or to the Allies, according as gold should appreciate or depreciate.

By the plan proposed, if the value of gold should decline (*i.e.* the price level should rise) Germany's revenue receipts would likewise rise ; and if the value of gold should rise (*i.e.* the price level fall) Germany's revenue receipts would tend downward. So that in either case the amounts payable to the Allies would vary with the value of the monetary unit.

Third. Inasmuch as Germany would herself receive the major part of revenues collected and as her officials would be publicly responsible to her people for the expenditure of these revenues, there would be strong public pressure for honesty in making collections and in keeping accounts.

Fourth. The plan gives Germany the maximum degree of freedom in working out her own tax and revenue program. ("Gages", if thought necessary, could of course be taken on this plan as well as on any other.)

Fifth. The plan has the merit of great simplicity. The man of the street cannot understand "com-

mensurate burden ” but he can understand “ twenty cents on a dollar ”.

We are in favor of this plan.

(Signed)

LEONARD P. AYERS

ALAN G. GOLDSMITH

CHARLES E. HERRING

CHESTER LLOYD JONES

W. S. TOWER

(Signed)

E. W. KEMMERER

I agree with Mr. Kemmerer in thinking this suggestion worthy of serious consideration.

(Signed) J. S. DAVIS

BERLIN, February 10, 1924

A number of things conspired to make yesterday important in the bank plan matter. Schacht made a speech on the 7th which was published on the 8th and had a demoralizing effect on the rentenmark prices. Again, rumours were spread that the Committee was in disagreement—that I had resigned—that the flag-lowering incident at the German Embassy at Washington in connection with the death of ex-President Wilson had alienated American co-operation in this attempted settlement. The rentenmark was sliding. Schacht’s speech was designed to throw responsi-

bility on the Committee for any collapse in present currency conditions if they did not recognize the necessity of a temporary gold bank to bridge the existing emergency. The Committee having reached unanimous agreement on the broad lines of the proposed eventual bank to take over the Reichsbank in liquidation—the Reichsbank having liquidated the Rentenbank—and in time Schacht's temporary bank, issued the *communiqué* (which I attach) as a means of aiding in reviving confidence in the rentenmark. Schacht approved the form of the *communiqué*.

BERLIN, February 9, 1924

COMMUNIQUE

The work of the Expert Committee has enabled it unanimously to lay down the broad lines which it will recommend for the establishment of a new German Bank of Issue on a gold basis, which will exchange its own notes against those of the Rentenbank and the Reichsbank.

The general principles of this plan have been communicated to Dr. Schacht, who is very clearly of the impression, shared by the Experts themselves, that if it is put into execution it will prove to be the most important step towards the definite

stabilization of the German exchange and the balancing of the budget.

The Expert Committee will inform the Reparation Commission that, in its opinion, the plan which the Committee will submit to it should be put into prompt operation.

Dr. Schacht has informed the Committee that, in making his pleas for the formation of his gold bank, he is so arranging matters as to facilitate its absorption by the Bank of Issue which will be proposed by the Committee.

The Expert Committee will meet on the 18th instant at Paris, when it will meet Dr. Schacht.

BERLIN, February 11, 1924

This morning Stamp gave me his first comments on the Kemmerer suggestion. From 11 A.M. to 2.30 P.M. the Committee listened to the German representatives of Agriculture. It was an instructive meeting.

Took lunch with Young.

At 5 P.M. the Committee meets the representatives of another industry.

The rentenmark is said to-day to have greatly improved its market quotation. For this the compromise effected by Young and Schacht, two strong characters, may be largely credited.

The meeting of the full Committee has just closed. As was to be expected, when, after five years, general public appreciation in all nations of the existing necessity of settlement of a European after-the-war program has been reached, every development of conditions and sentiment by the investigations of our Committee is in a general way favorable.

Suffice it to say that the great genius of Stamp is working out a reasonable demonstration of Germany's ability under a restored normal condition of creating a surplus of about 5500 million gold marks, the exportability of which in payment of reparations is a future matter to consider. This conclusion has not yet been announced to the general Committee pending further consideration.

This figure, if finally attained, will provide for a reasonable international debt adjustment.

I do not think I have mentioned the great usefulness of Pirelli. His mind is so keen and practical that he never takes a long time to make himself clear. He is the personification of common sense, which, when applied to great affairs, is the height of statesmanship. The Italian delegation wields great influence. Professor Flora is also most clear-headed and broad in his views.

BERLIN, February 12, 1924

Yesterday afternoon, our Committee listened to M. Grassman, the representative of Labor. He made a very powerful and moving address. It deeply affected me. Why must the chief burdens arising from the misdeeds of society always fall most heavily upon those to whom it is most indebted?

Surely the position of Labor in Germany at the present time is a cruel one. To-day at a session lasting over three hours we heard the representatives of the industrialists and bankers—Mr. Von Siemens, of the electrical industry, and Mr. Von Mendelsohn, of the banking interests. These both made able and comprehensive statements. Both, as did Mr. Grassman the night before, admitted the justice of a burden of taxation upon Germany commensurate with that borne by the Allied nations.

Among our Committee, we are already informally discussing the main portion of our report.

This afternoon, I dictated a synopsis of my own ideas as they are at present, and will attach it hereto :

BERLIN, February 11, 1924

SYNOPSIS

The principles upon which the report must be based, at this time, define themselves roughly

in my mind as follows :

(1) The whole report should be constructed upon the fundamental principle that the people of Germany must bear a burden of taxation for debt-paying purposes equal to that borne by the Allied nations. This principle is easy to state, but presents great difficulties when it comes to expressing it in figures under present conditions.

(2) It is presupposed that the plan is an elastic one, and that the burden of taxes upon Germany increases in prosperous years and lessens in years of depression, automatically. In this connection, in my judgment, it will be necessary, within limits, to invoke the Kemmerer idea of fixing, as a basis for payments, a percentage of gross Government income.

(3) The plan, in its broader aspects, must be so drawn as to impress upon the public mind that it assumes, in its eventual functioning, normal economic conditions in Germany under a stabilized currency and a balanced budget. Waiving, for the moment, the question of an exportable surplus, the amount which Germany might be expected to pay in taxes, under recognition of the principle of a commensurate burden with that of the Allies, will perhaps then resolve itself into at least a reasonably definite figure. Since the plan is elastic, however, and so drawn that income will increase with



Charles G. Dawes—Berlin—February 1924

Germany's prosperity, care should be had not to let the minimum figure guess destroy perspective. The plan must not assume that, with a prosperous Germany, the figure will not be commensurate to those obtaining in other countries. Ground exists for optimism in viewing the future of Germany under normal economic conditions. If an estimated minimum is in the minds of the experts, they must remember that all these things are matters of estimate, and that the business instinct of the world assumes that, with a restored Germany, all ordinary limits will be exceeded. If the report is so drawn as to run counter to this instinct, which is probably right because it is an instinct, the report will fail and the efforts of the Committee fall to the ground. The experts should remember that the levelling of the economic barriers in the Ruhr is one of the objects sought to be accomplished by this effort, and not the promulgation, through the world, of well-guarded opinions upon matters admittedly of estimate only.

The creation of a Bank of Issue, operated under Allied supervision, as provided for in the bank plan proposed by the Committee, with the provision for the deposit in the bank towards reparations of the internal surplus arising from the scale of taxation proposed roughly commensurate with that borne by the Allies, makes possible the promulgation

of the idea of commensurate German taxation.

(4) Since the creation of the balance in the bank for reparations account by the deposit of the internal taxation surplus becomes the basis of any payments, including deliveries in kind, which the existence of any exportable surplus, or the transfer of securities representing capital values renders possible, the practicability of the creation of the deposit without adverse effects upon Germany's internal business must be explained. In this connection it will be remembered that the German savings bank deposits before the war were 20 billions of gold marks, as compared with billion gold marks at present, indicating the large amount of capital required by Germany in a normal year's production and evidencing the large sum which can be accumulated internally before a condition of normalcy is reached in German productivity. Reference should be made to the effect that a large balance of purchasing power in the hands of the Allies, which can be only spent in Germany, will have in increasing the demand for German goods, both necessities and luxuries. A portion only of this balance can be transferred externally through exchange and transfer of capital values, and the rest of it cannot be spent anywhere else than in Germany. It must be assumed, however, that the Allies will not commit industrial suicide by allow-

ing this money to be used for the transfer of German goods to such an extent as to cripple their own industry. It is evident that difficulties are involved in this question, which require careful consideration.

(5) Since all agree that the return of German productivity depends upon the economic reuniting of the Ruhr with unoccupied Germany, we must plan to provide for certain immediate definite guarantees to France, commensurate with the value of the incomes which she is giving up in the Ruhr, including deliveries in kind. This is one of the most important features of the plan, involving discussion of the possibility of immediately making the German railway system the basis of creating revenue-bearing securities to be used in this connection. Probably other gages must be given. Military occupation of the Ruhr, as distinguished from economic control, must be conceded to France, not only in the interest of her proper protection, but as safeguarding the performance of the entire program in the future.

(6) If resort is had to the creation of monopolies, under Allied control, in certain resources of income, such as those of tobacco, alcohol, etc., in either furnishing gages to France and the Allies, or as guarantees for reparations payments direct into the bank, it is most desirable to have

them limited and to have the possibility of profit therefrom to the managing agency, the smallest consistent with the proper exploitation of the revenue. With the world prejudice existing against monopolies, intensified by the feeling regarding the German industrialists, the plan must not, even in appearance, turn over the German people to private exploitation. As a principle, it is wise to have the Allies deal with the German people through their Government and not assume direct relations with them in the matter of the imposition or collection of taxation. To obtain the minimum of guarantees sufficient to effect the general economic liberation of German business, it may be necessary to resort to monopolies. I hope not ; yet if so, it is suggested that the German Government, with Allied supervision, be the agency used, as far as possible, in their creation and functioning.

(7) The plan must suggest a moratorium of reparations payments, with the exception of certain necessary minimums like that necessary for an appropriate force of occupation.

(8) Depending upon the conclusions of the Committee as to the present balancing of the budget, the question of the amount and means of securing a foreign loan for the balancing of the budget should be covered. In regard to the bank, it is assumed that the rate of earnings which the

plan makes possible upon the stock of the bank will constitute a sufficient inducement for the transfer of such portion of its capital as is required from the Allied countries.

(9) The plan must be so drawn, in relation to public opinion, as not only in its functioning to provide German business the necessary incentive for recuperation, but to convince public opinion that it is so constructed. On the other hand, it must give the Allies the reasonable assurance of adequate reparations.

This evening I took dinner with Parmentier. He told me that he had not met Poincaré since his appointment on our Committee save at the dinner given to our Committee by the Premier, when he had an opportunity to talk to him. This only emphasizes in my mind Poincaré's good faith in wishing an early settlement of the Ruhr situation. No higher tribute could have been paid to this fine young Frenchman, Parmentier, whom we all so admire for his ability and sincerity, and like so much for his charming personal qualities, than this confidence shown in his wisdom and discretion by Poincaré.

We discussed the terms of the final report. We have as yet developed no divergence of views.

Received a letter from Ambassador Houghton,

transmitting a letter from the Italian Ambassador saying that he had a telegram from Mussolini expressing gratification at some remarks I had made about the economic recovery of Italy and that he had heard I was coming to Rome, in which event he desired to see me, and offer the opportunity to examine the facts. Things like this make me realize the importance attached to the Committee and its work.

We leave by special train for Paris to-morrow night. To-morrow noon the Committee has asked me to call on Chancellor Marx in farewell and to express our appreciation of the whole-hearted co-operation of the German Government in our work here.

BERLIN, February 13, 1924

At the request of the Committee I called this morning upon Chancellor Marx to express, at our departure from Berlin, our appreciation of the co-operation of the German Government in our work here.

BERLIN, February 13, 1924

Your Excellency,—

The Committee of Experts has requested me to call upon you on the occasion of our departure

from Berlin, to express officially our appreciation of the effective co-operation of the German Government in our work here.

You and your associates have placed in our hands all the information for which we have asked. We thank you not only for this, but also for the courtesy and kindness with which we have been treated.

The Chancellor made formal reply which, with a summary of my informal remarks, the German Government will issue to the Press.

In his personal remarks the Chancellor said that in the work of the Committee Germany saw its only chance of economic salvation and a chance for the future.

McFadyean, the able General Secretary of the Committee, and Mr. Bate accompanied me. I do not remember to have written of McFadyean before in these notes.

He is possessed not only of long experience in work of this kind, but he has an entire grasp of everything discussed. His suggestions are valued by the Committee on all subjects. His abilities as a linguist and as a good diagnostician of proper action in difficult situations alike add to the great value of his work.

PARIS, February 17, 1924

We arrived from Berlin Thursday evening, February 14th.

Kindersley and Stamp have gone to England, Francqui and Houtart to Belgium, and Pirelli and Dr. Flora to Italy. We reassemble, however, tomorrow—Monday.

Realizing that the crux of this settlement concerns the delivery in kind and Ruhr revenues, now accruing to France, and the consideration therefor which the plan may offer, I had an interview with Barthou yesterday afternoon, at which we discussed the entire situation. I desired that the French Government make specific the minimum considerations for which it will release the economic control of the Ruhr as soon as possible, so as to expedite the discussion by the Committee of that, upon the proper settlement of which the success depends.

Accordingly I gave to Barthou my memorandum of February 11th, concerning, in a general way, my idea of what our plan should cover. Colonel Logan and Captain de Marenches were with me. Barthou called in M. Maucière, who participated in the discussion. At the conclusion of our long interview, Barthou declared himself as in agreement with all the principles of my memorandum and agreed to reduce the requests of

France relative to gages to definite form as soon as possible, keeping me informed in the matter. It seemed to me important to let Barthou understand that the English members of the Committee seemed to recognize the necessity of gages so far as they had expressed themselves to Young and myself.

Barthou said that the present debates in the Deputies were taxing M. Poincaré's strength, and that it was sometimes difficult for him to see him to talk over things at length, but that he would make every effort to have our matters considered by Poincaré promptly.

After this interview, I am convinced that we can get unanimous agreement upon a plan.

Last night General Pershing, General and Madame Payot, Captain de Siéyès and Rufus took dinner with us at our rooms at the hotel.

This morning, conferred with Young, who had returned from Berlin via Nuremberg. He approved my memorandum and method of taking matter up with Barthou in order to expedite the precipitation into our Committee discussions of the essentials of our problem.

General Pershing is working very hard on his book and has now covered about 600 pages out of a possible 900. He has covered the American Expeditionary Forces up to August 1918, including the formation of the First Army.

PARIS, February 18, 1924

At the meeting of the Committee this morning, I precipitated the first general discussion of our final plan which we have had. It occurred to me that the difficult points which we must settle should be in the minds of all concurrently with the consideration of the remaining information as collected.

We know that France is going to make certain demands. As far as possible, we should know them now. We will steer our ship more safely if we know where and what the rocks are now. The longer we go on without this knowledge the more committed we may get in our own minds to certain things which we may afterwards have to throw away when we know France's terms for evacuation of the Ruhr.

Now, I have had enough experience in inter-Allied conferences in the war to know that men do not throw away preconceived ideas easily. A man falls in love with ideas simply because he has created them, not wholly because they are worth creating. A subsequently developed fact must hit an idea with force to dislodge it, whereas if the fact is known beforehand the idea is never even formed.

We are in that stage of work on the Committee when, if time which is so important is not to be

wasted hereafter, issues must be precipitated. I acted accordingly. There was some demur to this method and desire for further postponement of such discussions, etc., but we had one hour and a half of the most useful general discussions we have had—at least, it seemed so to me.

At Mr. Pirelli's request, no minutes of any kind were kept of this meeting. In general, the discussion developed no fundamental or insurmountable points of difference. As Francqui said to me after the meeting, "You and I like to jump in the water and swim, and any one of us who has not learned to swim by this time will drown".

Young brought up the coal delivery in kind matter from the Ruhr and Parmentier promised to get quickly what the minimum requirements of France will be. This is one of the most vital points we have to settle. The policy of creating monopolies—the question of an elastic imposition—the question of the effect of military occupation after economic freedom of the Ruhr was conceded—these questions and others equally vital were discussed.

The sub-committee on banking had Dr. Schacht before them this afternoon.

Took lunch with General Payot and Lieutenant Stroppa-Quaglia, who was on our inter-Allied staff at Coubert during the war. Discussed

with Payot the photographs to be inserted in the Report of the Military Board of Allied Supply, which is now being published at Washington by the United States Government. We do not want to forget those who have done so much of the labor of compiling this great work and fortunately discovered in time that we had left some out.

PARIS, February 19, 1924

Interesting Committee meeting to-day. We had another general discussion. Stamp will have his budget report this week. Our work has proceeded far enough, so far as information-gathering is concerned, that the maximum limits of the conditions we must meet are really in all our minds. Therefore every exchange of views generally is becoming more important.

Taking the maximum of what we must provide for in the way of a foreign loan, banking capital and a moratorium, it seems so small as compared with the benefits to be derived from it and the catastrophe to economic Europe if it is not provided, that failure seems inconceivable.

The franc is falling every day. Inflation confronts France if the holders of floating indebtedness demand payment, unless heroic measures are taken. Even then, if the public is becoming panic-

stricken, as seems probable, the condition of prices and exchanges may bring her gradually to the disorganized state of Germany in currency and business conditions. The only hope is in Allied agreement upon our plan. The contemplation of the results of failure to agree is alarming. The probable results of success are not too reassuring.

At any rate, if we agree unanimously, the Allies *must* get behind the plan.

All these considerations press upon the Committee in the interests of unanimity.

Charles M. Schwab has just called on me at my rooms on his return from Germany. His views are extremely interesting. His virility, engaging personality and vigor of thought and expression make him unique.

Kindersley and Stamp dine with me this evening.

PARIS, February 20, 1924

Parmentier and Allix had a conference with Poincaré and Barthou yesterday. Logan had already told me that Barthou had reported Poincaré as pleased and in agreement with my memorandum of February 11th, which we had discussed with Barthou, and a copy of which in French he had kept.

Parmentier said that at the conference yester-

day, details were not much discussed. From what he said, however, it is clear that while the principle is recognized by France that its military occupation of the Ruhr is not to interfere with the normal functionings of economic Germany, the expression of the principle in a definite plan involves difficulties. What seems necessary to the French for protection may prove a barrier to normal business. However, that must be discussed when we get the details of what they want.

Parmentier evidently wants the Expert Committee to pass on these details. I construe this as meaning that Poincaré not only desires settlement but that he may have the weight of the Committee recommendation behind what he does with the military in the Ruhr. It is of course desirable to have our report definite on this subject, and thus prevent the passing on of a dispute to the Reparation Commission or to a council of the Governments.

Logan is very sure that a conference of Premiers over the report will be productive not only of delay but of unnecessary political controversy. He is hopeful that the Reparation Commission will act on our report and that another international conference may not be held.

At our Committee meeting this morning, Sir Josiah Stamp announced that the sub-committee

on the budget would report to-morrow. We should be ready by Monday to start on the final discussions.

PARIS, February 21, 1924

At our Committee meeting this morning, Sir Josiah Stamp made a verbal report on the budget, the written report of some thirty pages not being quite ready for distribution.

In general, the sub-committee finds that within two years Germany can balance her ordinary budget. Stamp agrees to this, but the other members of the Committee seem to feel that she can do it in one year. In any event, an authoritative general basis is arrived at for the report.

The experts—two French and two Italians—on monopolies and special taxes reported, and were told upon what subjects and along what lines the Committee desired their report. This they hope to complete and hand in within a week.

Had another talk with Parmentier about the position France would take on the matter of military control in the Ruhr, and as to leveling the present economic barriers. He said the question presented great difficulties. France only wanted to be sure if she gave up economic pressure and Germany did not honestly carry out her part of

the program, to be in a position to re-establish pressure.

The question of methods here must be carefully thought out. Of course the Committee could avoid this question by simply stating the proper principle to be observed and handing over the matter to the Reparation Commission. This France does not desire. I assume it to be Poincaré's attitude to have the matter covered in the report.

This is desirable for other reasons. Allied capital to the extent of \$200,000,000 or more may be required to get Germany started upward and take care of essential and minimum gages to France in the meantime.

But Allied capital will not come in if the *status quo* of economic freedom, established by the plan, is liable to be easily upset by any one Power like France. It will be reasonable to give France veto power through her present position in the Ruhr or some modification of it, over the situation until Germany fully and sincerely accepts the plan and until, relying on the good faith of both France and Germany, Allied capital is invested on the basis of the plan.

Then a new *status quo* would seem to be created which would justify France in confidence in the future, and in withdrawing all agencies which might embarrass German economy save and ex-

cept a minimum of military occupation which she deems essential to her protection as a nation.

Somehow it will have to be worked out, and when it is Great Britain, France, Belgium, and Italy have a joint interest in standing behind the arrangement.

An Entente is at least created between the Allies who, since the war, have been in disagreement.

If citizens of the United States participate in the loan to Germany, even our own country should not be indifferent to the outcome. Not only will France's ability to pay us anything substantial depend upon it, but we would have some interest at least in the safety of the investment of our citizens. However that may be, it seems to me it is essential to the interest of all—including Germany—that the plan be commenced and continued—and therefore essential to the peace of the world. If it is not settled now, when can it be?

It seems to me that Europe and its civilization is facing its last opportunity to avoid a slow, rudderless drifting into a sea of despair and desolation.

Francqui was talking about the difficulty which the sub-committee on the budget has in giving definite answers—indeed in its whole work, which must be in estimates and guesses to a large

extent. In his broken English he said, "I have a ship. She has two masts, one tall and one short. She has an engine. She has a mate and two sailors. Question : Of what age is the captain? Answer : 6482 feet."

PARIS, February 22, 1924

Short Committee meeting this morning, as the budget report of the sub-committee is not yet completed. Discussed with Parmentier the French attitude on the release of the economic pressure in the Ruhr. Afterward I dictated the suggestions which I attach hereto, and which I will hand to Parmentier.

Have already expressed these views verbally to Parmentier, and know that Young in a general way takes the same view.

But statements in writing which will be handed around, especially on a most important subject, often require careful revision.

Last night attended a dinner at the Cercle Interallié given to me by my old associates on the General Purchasing Board of the American Expeditionary Forces, and its allied organizations in my old headquarters. Quite a number of the French Staff which used to work with us were present. General Payot, Colonel Philippe Bunau-Varilla, of the guests, and Colonel Drake and

Colonel Harjes, the hosts, made speeches. Enjoyed meeting my old friends more than I can tell, but was acutely conscious of being over-praised by the speakers.

The exaggerated idea of the importance of my personal services over here in the public mind is a continual embarrassment to me. I see constantly in the Press the results of the strenuous work of some of my colleagues in which I have not even participated, placarded with my name.

P.S. Have just seen Young and he approves fully of my memorandum of personal views. The same will go to-morrow to Parmentier and Barthou and therefore Poincaré, and I hope will prove useful.

SUGGESTIONS

PARIS, February 22, 1924

The following observations suggest themselves as bearing upon the problems in connection with the Ruhr situation, the solution of which will be determined chiefly by the attitude of France :

(1) It is presumably desired by all, including France, that in any new *status quo* established by the acceptance of the experts' plan, the normal economic functioning of Germany shall not be embarrassed.

(2) Based upon the discouraging experiences of

France and all the Allies with the German spirit of co-operation, in the past, France, with justification, will probably urge that her full release of economic pressure in the Ruhr must not be complete until the plan is accepted, not only by the Allies but by Germany. When the plan is accepted by all, including Germany, and an Allied loan made to Germany, either by the Allied Governments or the citizens of those Governments, including, it is hoped, citizens of the United States, it is in practical effect a new treaty of economic peace between an Allied Entente on the one side and Germany on the other. If, in the mind of the world, it falls short of this conception, the contribution of foreign capital necessary to its establishment would be probably greatly hindered.

(3) It must be evident that the mere creation of this new *status quo* of economic peace involves a protection for France greater than that which can come from an economic pressure in the Ruhr, which can evidently result only in the complete economic breakdown of Germany, and the loss of any hope for adequate reparations, thus dangerously jeopardizing the present and future interests of France.

(4) The great importance, therefore, of the determination by France of her proper attitude in this situation is readily apparent. In my judgment,

it was only her courage to act in moving into the Ruhr that has precipitated the conditions and emergencies which have rendered possible an economic peace that is really to be an economic peace. Had it not been for that action, this Committee would not be in existence.

It is again that splendid courage of France, in decision and action, in terms of the withdrawal of economic pressure, upon which the new economic peace must depend.

(5) I fully realize how unimportant are the opinions, as to what France should do, of outsiders, who cannot properly sense the minds, consciences and instincts of the great mass of her people, as do those who are charged in this crisis with the great responsibility of determining her action. As one of the elements, however, which enter into their considerations of a wise decision, the reaction of an American upon certain things may possibly be useful.

Nothing is more timid than capital. It is essential to the operation of the plan that the decision of France as to the course which she is to pursue in lifting the economic pressure as distinguished from such military supervision in the Ruhr as will give protection, shall be such that foreign capital may not be frightened from participation. Indeed, the participation of foreign

capital, in carrying out the plan, may well be regarded by France as the final evidence that at last a solution has been reached which is durable, and which has behind it a common Allied interest in its continuance, thereby affording the best safeguard for the future of France.

If France insists upon methods, in lifting the economic pressure in the Ruhr, which creates the impression upon the foreign investor that the new *status quo* may be disturbed or changed by quick or unconsidered decision, individual foreign capital is not likely to participate. This would indicate that the best possible plan for all concerned has not been followed. The part of wisdom, therefore, would indicate that when the present economic pressure is lifted, there will be reasonable assurances that it will not be reimposed except for self-evidently sufficient reason and by concerted action.

On the other hand, if foreign capital is to participate, it should be assured that its contribution will not be asked until France and the Allies are satisfied as to the sincere spirit of the promised co-operation of Germany, and that the plan is in such shape as to be launched in its entirety. The maintenance of some degree of economic pressure, therefore, pending the completion of the plan, would seem justifiable, not only to bring about its speedier consummation, but to assure all that when

this pressure is lifted and the plan once entered upon, it will be continuous in its operation.

The American individual investor, as distinguished from European Allied Governments, will look upon the plan chiefly from the standpoint of safe investment. He is not influenced, as a European Ally might be in considering an advance of money through Government banks, by any direct thought of the effect of the advance upon reparations payments. His probable attitude, therefore, toward a prospective loan to Germany, and the conditions under which it is issued, may be regarded as good outside evidence as to what it is desirable for France to decide in connection with the method of dealing with the Ruhr situation.

It is to be hoped, in the interest of the plan, that, consistent with her full protection, France will be able to suggest methods which will impress the individual foreign investor with the safety of participation in the loan to Germany.

CHARLES G. DAWES

PARIS, February 23, 1924

At the Committee meeting to-day, the final report of Sir William Acworth and M. Lerverve on the German railways was discussed with them. Their report was full and able. It must be

regarded as the last word on the subject so far as we are concerned.

The Committee is concerned with the possibility of securing speedy financial returns from the railways, especially in connection with the consideration of what assets of immediate value can be invoked in connection with the Ruhr settlement and the continuance of the deliveries in kind which may be found necessary.

The resourceful and constructive mind of Young suggests among other things an equipment trust issue on rolling stock.

Gave my memorandum on the Ruhr problem in French and English to Parmentier : also to Kindersley and Allix. Discussed it with others of the Committee.

PARIS, February 24, 1924

Spent last evening and much of to-day with my old war-time friend, A. Van de Vyvere, at present Minister of Reconstruction and leader of the Catholic party of Belgium, and during the war the Finance Minister of Belgium. It was he and his colleague, Paul Seger, through whom I secured the 800 Belgian locomotives in the first days of the American Expeditionary Forces in France which did so much for our early transportation system under General Atterbury's able management.

I discussed fully with him the present status of our Committee work in order to get the benefit of his good judgment and unsurpassed common sense. He approved of our general position. He said that Belgium wanted to get out of the Ruhr—that its part there was a burden to Belgium—that they went into the Ruhr because of their dependence upon France. He said to me frankly that at present Belgium would act upon the Committee's report independently and move out of the Ruhr. He said also that he hoped and believed France would do so also. We greatly enjoyed our meeting together, for which he had come from Brussels. I want to go up and see him again before I return to America.

Yesterday afternoon at the banking sub-committee meeting Parmentier discussed with Young, Kindersley and Francqui in more detail than ever before what is in his mind to propose in the Ruhr situation for France. This was to get, as he said, a more general reaction of the Committee as to their ideas on this subject to aid him in presenting the matter to the French Government.

What Young said as he repeated it to me was eminently sound. In part, he expressed what I emphasized in my memorandum to Parmentier as to the importance of a durable economic *status quo* in the Ruhr if foreign capital is to participate. I do

not think I have ever met a man with Young's ability to so clearly and succinctly sum up a situation and carry conviction. It is a joy to work with him.

Yesterday, it seems that Poincaré in the Deputies quoted an expert as saying : " If France was not in the Ruhr we would not be here ". This referred to me and the remark to this effect in my memorandum which I gave to Barthou. Some of the Press having attributed the remark to McKenna, the French Government to-day issued to its Press agency a statement attributing it to me.

The American correspondents have just been here, and of course I corroborated the report.

PARIS, February 25, 1924

At the Committee meeting to-day the tentative report of the budget sub-committee was discussed. Took occasion to state at some length my views as to how this matter should be handled in our final report. Urged that we should state our conclusions without the detailed and technical arguments from which it is deduced.

From my study of this report—chiefly the work of Sir Josiah Stamp, ably assisted by Mr. Pirelli, Mr. Houtart and Mr. Allix—I regard it as a document of unimpeachable merit and command-

ing authority. The broad range and thoroughness, the complexity of its subject, the clarity of its conclusions—all these considered together remind me that if the Committee had not at its disposal the genius of Sir Josiah Stamp, it would have been sadly handicapped.

In my judgment it will not be wise, as I have just said, to incorporate in our final report, even as an appendix, this able document, although it is that which has fixed our minds.

It is no use to reopen economic discussions, and this report is such in great part. If our Committee fails, all economic discussion is beside the point anyway, for Europe fails in what, to put it mildly, may be her last opportunity to return to normalcy.

The Committee's report must speak *ex cathedra*. It must be plain to the ordinary man, who objects to uncertainty in the opinion of those who would lead him in the path to better things, when he himself feels that he does not know the way.

The great thing for Europe is to re-establish under common sense the Allied Entente. Then economic peace, the best antidote for war, is possible.

I had a talk again with Parmentier about the Ruhr problem. He is having the hardest time of all the Committee, for he sits at the high point of the difficulty. The burden of responsibility which

is borne by this able, honest and modest young man could not be greater. From his talk I can see the earnestness with which the argument for the continuance of at least limited economic control of the Ruhr is being forced upon him by certain French opinion.

This noon, our Committee was entertained at the Louvre at lunch by M. de Lasteyrie, the French Minister of Finance. M. Barthou, the Chairman of the Reparation Commission, and other French officials were present. I took occasion in a conversation with the Finance Minister to emphasize the points of my last memorandum. He answered me only by saying finally, "I will not say you are wrong".

Upon the general points of what was required, we were both agreed and discussed them at length, but when we approached the crux of the matter, the above was all I could get.

It shows the extreme importance—I should say—of what M. Poincaré himself finally says, and the understanding of the Ministers that upon this point he will himself decide. The desire of France to settle is sincere and manifest, but the agony of war and the experiences through which she has passed make her hesitate lest for what she gives up she receives nothing.

She, better than any other nation, appraises

the cost of possible mistakes which we may make, for she, more than any other nation, will have to pay it.

I feel that I am trusted by my French friends, and I pray that I may be worthy of trust.

If I urge upon them the course of moderation in this matter, it is because I believe that the best protection of France is involved in it. If France keeps her troops in the Ruhr, I cannot see how, after the plan, with Allied monetary advances included, is fully launched, the retention of even a skeleton of economic control is essential to her.

Whatever economic agency she kept alive for the reimposition of control, if Germany did not live up to the agreement, would necessarily be called into activity only by Allied agreement. Its existence would only be a probable source of irritation to the other Allies and to Germany, and a danger instead of a protection to the new *status quo*. And then, again, France having her troops there has a protection that is real and sufficient. If the Germans start manufacturing cannon or machine-guns again, she can march her troops to the spot.

France will make the new economic peace possible by agreement in our plan. I am sure of that—but if anyone be critical of her caution, let him think of what she has been through. And let

no one of us regard his own opinion of what France should do as involving any points which she will overlook in making up her mind.

PARIS, February 26, 1924

The meeting of the Committee was given over to the consideration of the report of the budget sub-committee.

Parmentier says he is having a hard time in formulating the French position on the Ruhr matter. A skeleton organization for economic control to be absolutely inactive unless certain conditions arise which are expressly stipulated by the plan in advance, is what is on the French mind at present—at least I judge so, although they have not reached any definite conclusion.

Took lunch at M. de Sillac's with General Payot, Senator Dupuy, Colonel Bunau-Varilla, my brother Rufus and Senator François Marcel, formerly Minister of Finance under Millerand. Heard a very interesting discussion of the French budget and answered some questions relative to the new system of executive control over governmental routine business which we have established in the United States.

Spent some time with Colonel Logan in the afternoon. He is an ever-present helper and ad-

viser in case of trouble. We consult him constantly.

Am just leaving to take dinner at Captain de Marenches' apartments with General Pershing, General Payot and Rufus.

At the Committee meeting, Young, to my joy, ably emphasized the importance of the element of time and the necessity of speed on our part.

Three meetings are being held daily—two sub-committee meetings and one of the full Committee. When the work is completed, I think it will be found that, considering the magnitude of the problem, this Committee has made a most unusual, if not quite unique, record for speed and thoroughness combined. No time has been wasted.

The silly stories in the Press about the British golf-bags which never existed and things like that when Stamp is working all day and until after midnight, and Kindersley about the same, make me indignant when I think there are always people who believe such stories.

Sir Robert Kindersley, on our Committee, is always listened to with great respect. He has a remarkable faculty of getting at the gist of every question. His common sense and his uncommon ability to state it makes him one of our leaders.

PARIS, February 27, 1924

Very short meeting of the full Committee to-day, as members are busy with documents and general preparation.

Stamp circulated a very interesting note on a measure in any elastic plan of German taxation.

Last night took dinner at Captain de Marenches', at which General Pershing and General Payot were present.

It seems that after lunch yesterday, where in a general way I had discussed the French attitude on the Ruhr question as it seemed at present, Senator Marcel who, General Payot says, is a very close friend of President Millerand, came to him with a most interesting statement. He outlined President Millerand's position in detail, saying that it was the same as that of Marshal Foch which Payot had already outlined to me. He intimated that if the Expert Committee outlined in its report such a proposition, Millerand and Foch would support it. He said that, under the French constitution, the President was invested with treaty-making powers.

Since the Foch idea did not cover, as I remember, provisions for economic as distinguished from military pressure, this statement of Payot's made to me at Captain de Marenches' house led

me to ask him to formulate the position which was acceptable to Millerand and Foch, which he agreed to do. This paper I am expecting this evening.

It was suggested that this proposition should come from our Committee in our report to have the greatest weight. Not knowing the details of the plan nor what is involved in consequences, I cannot of course comment on it further than to say that it may be of value in reaching a compromise on this vexed and important matter.

At any rate, it will shed light on the way to what must be settled.

The question of the nature of the controls to be set up over assigned revenues is a perplexing one. Their nature must differ with different subjects. Especially interesting, therefore, will be the report of the experts on the subject of "monopolies", who will report to us this week. These notes, of course, concern themselves with the general trend only of our work and the high points of difficulty. The number of difficulties which my colleagues confront in devising the machinery of the bank, for instance, would require a volume in themselves. Those of the budget likewise. And yet, only out of such detailed and painstaking work can come the simple plan and report which will meet the great situation.

PARIS, February 28, 1924

General Payot handed me his paper which outlines the form of military control which he believes should be established in occupied Germany, including the Ruhr, and which covers the views expressed to him by Marshal Foch. This method will not interfere with normal business, in his judgment, and calls for no economic agencies of pressure.

While the system proposed is similar to the one existing before the occupation of the Ruhr, it is modified to obviate difficulties formerly met in operating the railroads at the bridge-heads on the right bank of the Rhine.

From my talk with Parmentier to-day, I do not believe we are going to have great difficulty in getting common agreement on the Committee. Poincaré has given absolutely no instructions to Parmentier, who feels his responsibility keenly. Parmentier is talking with Kindersley at this time. Certainly negotiations between men like Sir Robert Kindersley, representing Great Britain, and Parmentier, representing France, should result in agreement. If they agree, the rest of us will be in accord, for Great Britain demands firmly the lifting of any embarrassing economic pressure which will harass business or lessen the confidence of the public, including investors, in the plan.

Young is equally strong upon this point. If Parmentier had to take instructions from others, not so close to the real situation as he is, there would be more trouble in reaching agreement. But he is free to exercise his best judgment.

Evidently Poincaré wants to be in a position to say, when the plan is discussed, that he has interfered in no possible way with the reaching by the French representatives of an independent decision.

In the meantime events ride with the plan.

The fall of the Belgian Ministry yesterday, following the debate it did, can only operate to make Europe and France, especially, see the necessity for common agreement on common action once again. If that cannot be secured now, it will be too late. Everything which happens must emphasize that in the minds of everybody.

To-day Sir Arthur Salter was heard by our Committee upon the recovery of Austria under the plan to which his own genius has so much contributed. His report was a model of clearness and condensation.

As in Austria, so in Germany, if our plan goes into operation, I believe every present estimate of her rate of recovery will be exceeded.

Last night took dinner with my old friend and comrade, H. H. Harjes, and his wife. Present : General Pershing, Governor Forbes, of Boston,

Colonel Logan, Senator and Mrs. Taufflieb, Miss Harjes, Caro, Rufus, Jean and myself.

PARIS, February 29, 1924

Just preceding our Committee meeting this morning, Parmentier handed me a memorandum of what he had in mind to suggest in regard to guarantees and sanctions for our report. He read it to me in English and then wrote out the English translation, which I attach hereto. As soon as I saw Parmentier's note, I knew all doubt as to the unanimous report of our Committee was over, and told him so. He then handed the memorandum to Kindersley.

PARMENTIER'S FIRST TENTATIVE MEMORANDUM
(Dated Paris, February 29, 1924)

The fixing of guarantees and sanctions of a political character, in order to ensure the execution of the suggested scheme, does not come within the competence of this Committee.

However, the Committee thinks they ought to point out that, in order that their forecast should not be entirely disturbed, any measures hindering economic activity ought to be cancelled as soon as Germany shall have executed the plan, and ought not to be resumed unless in case of a flagrant

Paris. ^{He made an informal memorandum in his handwriting, for sending to the President July 29th 1924. The copy from which this is typed is the one he handed to me.}
 The fixing of guarantees and

A function of a political character, in order to ensure the execution of the suggested scheme does not come within the competence of the Committee.

However the Committee thinks they ought to point out that, in order that their forecast should not be entirely disturbed any measures hindering economic activity ought to be cancelled as soon as Germany stabilizes her currency, and ought not to be resumed unless

... of a flagrant failure of ...
 ... it can ...
 ... to a great ... the committee
 ... think out ... the
 ... essential that ...
 ... should have at their disposal,
 ... should the next area ...
 ... to ...
 ... belongs to the Government
 to determine

(the plan of last summer)
 It is for the Government to determine
 the nature of the measures to be applied which should be able to
 of conditions which ^{they} ~~the~~ ^{the} ~~the~~ be able to
 put into effect ^{quite} quickly and
 effectively should the occasion
 arise and the method of their ^{rapid} ~~quick~~ and
 effective application, ~~should be decided~~

Kindersley. Translation of Parmentier's
French memorandum. His handwriting 40
Paris, Feb 29th 1924
It is not within the limits

jurisdiction to fix the
political guarantees and penalties
intended to insure the execution
of the plan proposed.

It believes nevertheless that it is
its duty to point out that all
its forecasts will be completely
upset unless the measures which
hamper the economic activity
are ~~not~~ withdrawn as soon
as Germany has put into
execution the plan recommended,
and they should not be reimposed
except in the case of flagrant
failure to fulfill the conditions
accepted by common agreement.
The Committee considers that it is
no less essential that the allies
should have at their disposal
in case the need arises, effective
and immediate sanctions the nature
of which it is for the Governments to
determine.

It is for the Governments, to
determine the nature of any
sanctions of which the allies
ought to be able to put in to
prevent should the occasion arise
quickly & effectively

It is for the Govts to determine the
nature of any sanctions to be
method of their rapid & effective
application should occasion
arise. The method of their
rapid & effective application

failure of Germany to execute the conditions mutually agreed on. It is for the Governments to determine the nature of sanctions to be applied, should occasion arise, and the method of their rapid and effective application.

In his first draft, the last sentence of the above was as follows : “ The Committee also thinks that it is none the less essential that the Allies should have at their disposal, should the need arise, efficacious and immediate sanctions which it belongs to the Governments to determine.”

SIR ROBERT KINDERSLEY'S TRANSLATION OF
PARMENTIER'S FRENCH NOTE
(February 29, 1924)

It is not within the Committee's jurisdiction to fix the political guarantees and penalties intended to insure the execution of the plan proposed. It believes, nevertheless, that it is its duty to point out that all its forecasts will be completely upset unless the measures, in so far as they hamper the economic activity, are withdrawn or modified, in order to leave such economic activity undisturbed, as soon as Germany has put into execution the plan recommended, and they should not be re-imposed except in the case of flagrant failure to fulfil the conditions accepted by common agree-

ment. It is for the Governments to determine the nature of sanctions to be applied, should occasion arise, and the method of their rapid and effective application.

After the experts on "monopolies" had finished and withdrawn from our meeting, and after we had adjourned, Parmentier, Kindersley, Stamp, Pirelli and I sat down and informally talked over the matter. Young was a little ill and not present ; but he had talked over the situation within the last few days with Parmentier, and Parmentier had a knowledge of his views when he wrote his memorandum.

It was surprising to see how nearly Parmentier had come in this first presentation of his ideas to satisfying the minds of our English members. As a result of our informal talk, the last sentence of Parmentier's first draft was re-worded by common agreement. Of course, such an important matter, covering as it does our Committee's attitude toward the Ruhr situation, will receive the most careful consideration, and our final statement in our report may be different in expression. It will not be different, however, in essence.

This day, in my mind, shall always mark the beginning of the new peace, if it comes, for we know now that our Committee will be in unanim-

ous agreement. The ease with which this particular agreement is reached is characteristic of the whole experience of the Committee.

In the laborious and important work of the sub-committees, where complex details of facts and methods had to be considered as well as principles decided upon, for presentation to the full Committee, temporary differences of opinion frequently occurred ; but always these differences of opinion were finally reconciled in some statement or position involving common agreement. We are nearing the end of our work. From this time on I cease to worry.

PARIS, March 2, 1924

Talked over general lines of report with Young last night. We do not differ. A proper statement can do much to promote future peace in the world because of the unique position occupied by our Committee. From this time on, both our minds will concern themselves chiefly with the form of presentation.

All the Committee will have suggestions, and all ideas must stand the test of " the survival of the fittest ". And yet, in a matter so important as this, ideas will be accepted in accordance with their value, unhampered by the interjection of personal pride. This is a good deal to say of this Committee

or any other—but I firmly believe it. Ideas only count.

This evening Young, Robinson and I had a call from Sir Robert Horne, formerly Chancellor of the Exchequer of England under Lloyd George, a very interesting man. We had a rather free discussion with him, partly designed to get his reaction on the measures in regard to the Ruhr which would satisfy England. From what he said, I am the more convinced in my optimism.

While he desired assurances that France would eventually completely evacuate the Ruhr, he was inclined to agree with me when I said the pressure of public opinion for settlement of the situation so as to let things start normally again in Germany, was such in England and France, and therefore behind our Committee's report, that whether the report advocated immediate military evacuation in the Ruhr or, on the other hand, recognized the military occupation with the proviso that it was not to interfere with normal economic functioning—in either case both France and England would accept it.

This I really believe, but it is for us to so state our views that the right adjustment will be forwarded, since it is a question with two sides and not to be jumped at.

Since Young is a little under the weather, he is

arranging to have Robinson act for him on the sub-committee on the bank and railroads for the next few days. No one is better qualified than Robinson for this important work, which he can do as the report of the Second (McKenna) Committee is about completed.

Last Friday evening, had Sir John and Lady Bradbury, Lieutenant-Colonel and Mrs. H. H. Harjes and M. Parmentier to dinner with us. I greatly enjoy Bradbury, who is really a great friend of Americans, but is possessed of a fund of humor and a caustic tongue. He dilated upon the entire lack of resemblance of Americans, especially those of Boston, to the English, rather with the idea that he was rubbing it in, I thought. Upon being asked my opinion, I replied that he was entirely right, and by his view paid the Americans a high compliment which I appreciated all the more because of my acquaintance with him.

Bradbury is one who, in the discussion of the advisability of forming our Expert Committee which took place on the Reparation Commission, said that it would be like "prescribing a pill for an earthquake".

PARIS, March 6, 1924

We have commenced those discussions of the general nature of our report and the form of its

presentation which are of engrossing interest and of corresponding importance. I have been so occupied in forming and expressing my own ideas that I have neglected these notes for the last few days.

At the meeting yesterday, after listening to some observation as to what was and what was not conservative to state in this report from the economic and business standpoint, I made a statement which I cannot but believe embodies, in a general way, what our final report must contain if it is to be of maximum effectiveness.

While admitting that in its estimates and statements as to the first three years of the operation of the plan, it must partake of the nature of a business prospectus appealing to the conservative judgment of individuals expected to invest in a preferred loan, in its general nature it must be not only this but something far more. I maintained that it must be so drawn as not simply to appeal to the business and economic elements of public opinion, but must take into consideration the interests of the fathers and mothers and friends of the millions of Allied soldiers who lost their lives in the war.

If their feelings and reactions were ignored, I pointed out that the plan would fail in that general public appeal throughout the world, essential if not to its adoption, at least to its success in practice.

I maintained that much of the dissatisfaction of public opinion with the progress of reparation efforts in the last few years arose from the elaborate arguments as to Germany's capacity to pay made by economists who constantly emphasized the fact that foreign payments could be made only through an exportable surplus. Their deductions, all estimated—all largely guess-work—as to what exportable surplus Germany could create furthered the conviction that Germany never could be made to bear her share of the burden she had inflicted upon others.

I stated that the sincere opinion of some of us was that the progress of Germany, economically restored, would be such that every minimum estimate of revenues and business, and time necessary to attain, set out in our plan would be exceeded.

Our plan had been so devised through its elastic provision of taxation as to make it certain, if good faith were observed, that Germany's prosperity should be reflected in increased payments on reparations. I insisted, therefore, the natural caution of our business and economic interests should not prevent us from a reasonable appraisal of the probabilities of the result upon reparations payments of the restoration of normal economic functioning. If we did this, we would destroy public confidence in the claim that our

plan did impose upon Germany a budget commensurate with that borne by the Allies. If we destroyed that confidence, the plan would fail.

We are drawing the plan to take from Germany in taxation what is now being taken from Allied peoples, all that can be borne without destroying productivity and the incentive to it. The plan should in its form of presentation make this clear or it will indict itself in the public opinion of the world.

It is comparatively easy where economy in words is not important to tell what the plan should express. To express things in the plan itself is the difficulty. Young is working along this line. Our idea is to join them up simply on the basis of the application of the rule of the "survival of the fittest" in the method of presentation and add them to similar suggestions from the other members of the Committee as to the ingredients of the final statement of the plan.

I will attach hereto, however, what I have drawn up as a composite of two statements, one by Rufus and one by myself, which, perhaps in a modified form—for constant thought is a menace to fixed forms at this stage—we will discuss with Young who also has formulated tentatively his ideas.

Yesterday went to lunch at Mr. Schneider's

where there was an interesting group, including Marshal Foch. I always enjoy talking with him. He told me an anecdote about himself and Lloyd George when, at a critical time, Lloyd George, after visiting the hard-pressed British line which had just been placed under the central command, said to him, "Things look pretty bad. Whom shall I bet on, you or Ludendorff?" "Bet on me," replied Foch. "For me to win I have only to push him back—for him to win he must break through me."

The Marshal, to whom I had given one of my pipes—of an unusual model—told me that he had both enjoyed and adopted it in place of his old kind.

As they cannot be had in France, I yesterday sent him two more.

Am accepting no invitations except those in which I meet people who can help forward the work—but now during the last ten days of our work the evenings must be given to it.

At our Committee meeting this afternoon we took up another general discussion—that on internal and external German loans. Next week is the most important one.

PARIS, March 7, 1924

We had a most interesting meeting of the Committee yesterday afternoon which was devoted to

the discussion of the two related subjects—the German budget and foreign and internal loans. A very free exchange of views was had.

The foreign loan required will be about \$250,000,000 more or less, although to make this figure practicable some additional features will be added to-day to the report of the sub-committee on both the budget and the currency.

Devoted the day to the further formulation of statements explaining the principles of the plan and their application to be presented to the Committee for consideration. Rufus and I are working this out together, and I attach the draft as it stands at present. Gave Young a copy of it.

STATEMENT OF PRINCIPLES

18 RUE DE TILSITT,
PARIS, March 6, 1924

“It is deemed fitting, concurrently with the presentation of suggestions of specific methods in the report herewith, to state the general principles in constant recognition of which this plan has been drawn.

“In the application of what may be called the ‘principles of business’ to a consideration of the means of improving any distressed condition of mankind, there is no essential conflict between

business and political principles. While, in the usual forms of business, protection against the consequences of default is provided for by express stipulation, the universal assumption is that of a voluntary and willing good faith on the part of all. In business relations it is assumed that the principles of justice, fairness and mutual interest are fundamental. Business relations which are not founded upon them are seldom of long duration.

“ These great principles apply not only to the business activities of mankind, but equally to those which concern his governmental, political and social welfare.

“ (1) This business report is based upon that just and equitable principle laid down in the Treaty of Versailles, to wit : ‘ The Commission shall examine the German system of taxation . . . so as to satisfy itself that, in general, the German scheme of taxation is fully as heavy proportionately as that of any of the powers represented on the Commission ’. Upon the justice of this principle the Committee has not found disagreement either among the Allies or in Germany. The burden of obligations created by the war has condemned the people of all the other nations to assume the payment of the maximum of taxes which can be borne without destroying the incentive to continue and increase production. Taxes are levied

and collected in France, Great Britain, Italy and Belgium, to the utmost capacity of industry to endure, and the administrators of revenue and taxation have imposed generally the maximum burden which in their judgment could be carried out without destructive effects.

“ In estimating the capacity to pay, it is impossible to make an exact comparison between nations wherein different conditions exist. The rule and system of taxation laid down in one nation as to that which would produce the maximum of revenue, without destruction at a particular time, might, if transferred and applied to the people of another nation at the same time, result in comparatively low revenues, in disturbed conditions of business and even in distress resulting in emigration. Modification in any scale of taxation must be determined by considering the possibilities of producing greater revenue, consistent with maintaining an increasing production whereby the capacity for further payments is sustained. Taxation which diminishes materially the capacity to produce, reduces, in the same measure, the ultimate capacity to pay.

“ It is not so important, in considering the scheme of taxation in Germany, to measure the schedule item by item as compared with their counterparts in other nations, in order to be assured

that it imposes a proportionate burden, as it is to make certain that a system be established deemed fit to procure the maximum of revenue without the destruction of productive power.

“ The Committee has applied this principle in considering the German budget, and if its plan be followed, Germany’s capacity to pay will be developed and not stifled, thus ensuring the only method of securing the maximum of ultimate payments.

“ Since the creditors of Germany are paying taxes to the ultimate limit of their capacity, the application of this rule, accepted as just and equivalent, in its note of May 29th, 1919, would mean that Germany also must pay taxes from year to year to the utmost limit of its capacity to pay. More than this could never be expected and less than this would relieve Germany from the common hardship. A German scheme of taxation, thus devised, is that alone which carries out the just and equal principle laid down in the Treaty of Versailles, accepted by Germany and the Allies, that it must be ‘ fully as heavy proportionately as that of any of the Powers represented on the Commission ’. With this principle accepted in good faith, the recommendations of this Committee must be viewed, not as inflicting penalties, but as suggesting means for the economic recovery of all

European peoples and the entry upon a new period of peace and prosperity, in themselves the best safeguard against future wars.

“(2) In the practical application of this principle, the Committee has recognized that a mutual interest must be created in the preservation of any new economic conditions which may result. It recognizes that under a rigid system of taxation, without elastic features, the changing economic conditions of Germany would not only abrogate the principle of a continuing burden of taxation, commensurate to that of the Allied peoples, but involve injustice to Germany. An elastic scheme of German taxation is necessary for the Allies, in order that a commensurate burden of taxation shall register for payments, the effects of Germany's prosperity. It is necessary for Germany in order that a present determination of the taxable burden in fixed accounts shall not be such as to render impossible her start toward that industrial prosperity and productivity upon which her own welfare and that of the Allies so much depend.

“(3) Since, without a stable currency, a scheme of taxation has little meaning, the Committee has been asked to find the means of furnishing Germany, in a short time, with a sound and stable currency, and it submits a plan for a German national Bank of Issue to sustain the wavering

currencies of Germany and gradually to supplant them with issues of the new bank. It offers this bank plan as a solution of the currency problem in Germany, with the added comment that its immediate organization may be necessary in order to prevent a new series of disasters and a further impairment of Germany's capacity to pay.

“ This bank plan provides for a new currency, upon a gold exchange basis, to be substituted as soon as practicable for all the various monetary tokens now in circulation in Germany, such currency to be issued exclusively by the bank. To secure the capital, it provides a foundation of strength and solidity in this proposed bank as should not only attract foreign capital, but draw from their hiding-places the reserves in gold and foreign currencies of the German people, thus marshalling them in organization for the restoration, through a careful distribution of credit, of German productivity.

“(4) To ensure the permanence of a new economic peace between the Allied Governments and Germany, which involves the economic readjustments presented by the plan and agreed upon between them, mutual interest and good faith must not be the sole reliance. In such an agreement there must exist the counterpart of those usual precautions against default, recognized as

essential in all business relations involving expressed obligation.

“ The existence of safeguards in no way hampers or embarrasses the carrying-out of ordinary business contracts. Indeed, in ordinary business, when the good faith and earnest effort of a delinquent are unquestioned, resort is seldom had to their unconscionable enforcement.

“ The creditor nations must be ensured against evasion or default on the part of Germany, and Germany against unreasonable attitudes on the part of the creditors, resulting from the lack of information out of which suspicions of good faith so easily arise. The thorough effectiveness of the safeguards involved in Allied supervision, should not embarrass the normal economic functioning of Germany and is of fundamental importance to the creditors and to Germany.

“ The plan, therefore, fixes effective methods of guarantees and sanctions of an economic character, involving Allied supervision. The fixing of guarantees and sanctions of a political character, in order to ensure the execution of the suggested scheme, does not come within the competence of this Committee. However, the Committee think they ought to point out that in order that their forecasts should not be entirely upset, any measures hindering economic activity ought to be

cancelled as soon as Germany shall have executed the plan, and ought not to be resumed unless in the case of flagrant failure of Germany to execute the agreements which they agree upon. It is for the Governments to determine the nature of the sanctions to be applied, should occasion arise, and the method of their rapid and effective application.”

The summary of the principle of the plan which, for its effect on public opinion, must be included in our report requires careful thought and well-considered expressions. It will be read the world over—by the Allies and by the Germans. Somehow I cannot feel that to make it acceptable is so very difficult. All that is necessary is to tell the truth, tactfully and not offensively—but to tell the truth.

The world is tired of being deceived by the special pleaders and nationalistic demagogues who lead it nowhere except into trouble. In time of great and long-continued trouble men demand truth. They will endure troubles often for a long time without really facing the truth, but finally they do face it, for to escape trouble it must be examined for its causes.

It is therefore in times of adversity rather than in prosperity that mankind acts most wisely. These surely are times of adversity in Europe, and a wise

plan, truthfully explained, will be adopted the more readily because of it. Unless Europe enters the Kingdom of Common Sense and Truth by way of our plan, no one can measure the extent of her future misfortunes. Every day the franc falls, and some new complications are threatened.

We are bending every effort to get through our work. We *must* complete it next week.

PARIS, March 8, 1924

Looking back over these notes I find that, on February 25th, I expressed the idea that our report should be *ex cathedra*—that is, without any explanations save those absolutely necessary to indicate the fundamental principles upon which it is based. The strategic position of the Committee is being strengthened by the events of every day. In proportion as it increases, it becomes possible for the Committee to make categorical recommendations without explanations which invite controversy, often over non-essentials.

The more I work over suggestions for the Committee to consider, in its summary condensed explanation, the more I feel that my first impressions are sound.

When a ship confronts a gale, she is safer with bare poles.

I believe the report should be as categorical as possible. Our formulation of views, however, makes possible a more intelligent decision by the Committee when the matter comes up for discussion, as it will next week.

It seems now that the sub-committee reports will all be completed by next Tuesday at the latest. If so, the report ought to be completed by next Saturday night, to be published early the following week in the Capitals of the world.

It occurs to me that in its desire to have the bare truth exposed, Europe is like a man who has been told that he must undergo a major operation. For a long time he refuses to face the facts and not only consults quack doctors who seek to please him by saying it is unnecessary, but imbibes different varieties of patent medicines. But suddenly he realizes that his physical condition is becoming steadily worse, and he demands the truth and that it be acted upon immediately. When he calls in the surgeon for the major operation in order to live, he does not ask for further reasons as to its necessity ; he asks for the operation.

If this is so, why should our Committee invite further delay by opening the door to further discussion by unnecessary explanations made officially? Still in important matters one must keep

an open mind until he has developed the situation. Then he must decide immediately.

PARIS, March 9, 1924

This afternoon I wrote out the following statement, which is a suggestion as to an epitomization of principles, methods and prospective results of the plan which might well be its opening word.

Paris, March 9, 1924.—In compliance with the instructions of the Reparation Commission to devise means for the stabilization of the currency and the balancing of the German budget, the Committee of Experts presents herewith its plan. In the belief of the Committee it is based upon those principles of justice, fairness and mutual interest in the supremacy of which not only the creditors of Germany and Germany itself, but the world, has a vital and enduring interest.

With the principles accepted in good faith, the recommendations of the Committee must not be considered as inflicting penalties, but as suggesting means for assisting the economic recovery with an equal step of all the European peoples and the entry upon a new period of peace and prosperity, which in itself is a safeguard against future wars.

Upon the underlying principle outlined in the

Treaty of Versailles and reaffirmed by Germany in its note of May 29th, 1919, that the German scheme of taxation must be "fully as heavy proportionately as that of any of the powers represented on the Commission", an accord has already been reached.

Since the creditors of Germany, as a result of the war, are paying taxes to the limit of their capacity, the application of this just and accepted rule would mean that Germany also must pay taxes from year to year to the limit of her capacity. More than this could not be expected, and less than this would relieve Germany from the common hardship.

The immediate adoption of the plan, which will enlist a common effort to end an intolerable situation, is the prime consideration.

The one presented herewith makes possible, under a commensurate burden, a continued and increasing production and prosperity in Germany, upon which her own welfare and that of her creditors so much depend.

In view of the flexible adjustments which tend from the very beginning to produce the maximum of contributions consistent with continued and increasing production, the conservative estimates of the plan as to the near future, dictated by business prudence in outlining the basis of a loan, should

not destroy perspective as to the effects to be registered in the aggregate of eventual reparations payments resulting from the restoration of normal economic functioning and increased production.

The possibilities of the potential productivity of Germany are great. With its economic and normal business conditions restored, the payments of Germany for reparations, under the elastic plan of taxation proposed, will be in annually increasing amounts. The effort to restore normal economic and business conditions and to stimulate production is, under this system, the most effective measure to increase these annual payments. With success, the most successful estimate of amounts eventually recoverable will be found to be justified, while without it the recoveries will be of little value in meeting the urgent needs of creditor nations.

The creditor nations must be ensured against evasion or default on the part of Germany and Germany against unreasonable attitudes on the part of the creditors resulting from the lack of information and understanding out of which suspicions of good faith so easily arise. The thorough effectiveness of the safeguards involved in Allied supervision should not, and must not, embarrass the normal economic functioning of Germany and

is of fundamental importance to its creditors and to Germany.

The plan therefore fixes effective methods of guarantees and sanctions of a political character, involving Allied supervision. The fixing of guarantees and sanctions of a political character, in order to ensure the execution of the suggested scheme, does not come within the competence of this Committee. However, in order that the forecasts of the Committee should not be entirely upset, any measure hindering economic activity should be cancelled as soon as Germany shall have executed the plan, and ought not to be resumed unless in the case of flagrant failure of Germany to execute her agreements. It is for the Governments to determine the nature of the sanctions to be applied, should occasion arise, and the method of their rapid and effective application.

After I had finished it, I took it down to Young's room and read it to him. By agreement, we had approached the matter of the general form of the report independently, our results to be exchanged for common consultation. He then gave me his statement, which I have carefully considered. It is in general equal to the great necessities of the situation. In it he includes a portion of the suggestions which Rufus and I had incorpor-

ated in the draft attached, which had been submitted to him. In its form it is admirable, and in the clearness and authority of its statement all that could be desired. It lacks, however, one thing which must be added, and that is the appeal to the ideals of humanity as well as to their business sense.

My impression is that Young's memorandum involves to an irreducible minimum this objection. To some extent, however, it must be incident to any short recapitulation which, in addition to the details of the mechanism advised, the report must contain.

My idea to-night is that, by adding something which does—perhaps in a better way—what I have tried to do in this afternoon's statement—appeal to the ideals of humanity as well as to their intelligence and common sense, to the memorandum which Young submitted, the proper solution will have been found.

Of course, what Young and I propose must go through the mill of the Committee. It may or may not survive. We have agreed to be frankly critical of each other's suggestions so that what is evolved may not suffer because of a fear of wounding each other's sensibilities.

I can find no errors of inclusion in Young's memorandum, only the one of not including what I have before mentioned.

Before I had read Young's memorandum, I had made up my mind that the best way was just to have a short general opening such as I had prepared this afternoon, and then have the report as to detailed mechanism follow.

Midnight.—Young and I have had a full discussion of our views, which coincide. We agree in the necessity of the appeal to idealism and in the elimination of that which invites unnecessary controversy over details to the utmost extent possible. We will both revise our memoranda.

We discussed means of dividing at first the Committee into drafting sub-committees on the introduction, the general statement and the detailed plan. This is merely under consideration.

PARIS, March 10, 1924

At the full Committee meeting this afternoon, I brought up the subject of the method of drafting the final report, expressing in general the same ideas as appear in these notes. The value of the appeal to the idealism of the world was recognized. The suggestion was made that I make another address covering this at the time we delivered the report to the Reparation Commission. I declined to do this, stating that I acutely felt the injustice to

the other members of the Committee in the public accrediting of so much of their work to me. I was more touched than I cared to show to find no trace of resentment on their part.

The method of statement which Young and I had talked over was agreed upon :

First : A general statement designed to marshal general public opinion behind the plan ;

Second : A condensed statement with explanations of the outstanding principles and methods suggested to carry them into effect ;

Third : The detailed report covering facts and machinery designed to carry the plan into effect.

It was decided that Number 1 should be covered in a letter from me as Chairman, formally transmitting the report to the Reparation Commission, which I should prepare.

Numbers 2 and 3 will be covered by assignments of individuals to consider the suggestions handed in by members of the Committee and to formulate tentative drafts for the Committee's consideration.

In the meantime, to-morrow, there will be circulated among the members of the Committee for consideration a draft of a report which has been under preparation for some time by Mr. Andrew McFadyean, the able Secretary-General of the Committee.

I will, of course, submit my letter of transmission for the approval or suggestions of modification on the part of the Committee.

PARIS, March 11, 1924

Made the first draft of my letter of transmission. Managed to get it into about one thousand words.

No meeting of the full Committee to-day as the bank sub-committee is threshing out matters with Schacht.

This evening Herman Harjes brought to my room telegrams he had received from J. P. Morgan & Co. relative to a proposed loan to the Bank of France of one hundred million dollars to be secured by ear-marked gold and to be used in sustaining the franc. Young came to the room for the conference. It seems that Morgan had consulted our Government as to whether it had any objection to the making of the loan. The reply evidently was that if it did not adversely affect the chance of the acceptance of our plan, the Government had no objection.

Our opinion was asked by Harjes and we agreed no harm would be done. The loan is to be made on certain conditions outlined in the telegram from Morgan which the French Government

undertakes in connection with ceasing certain expenditures and making an effort to refund a portion of its floating indebtedness. The incident shows the thinness of the ice upon which French finance is standing. One hundred million dollars will do no good in stabilizing the franc if public confidence is once seriously undermined.

Unless our report is unanimous (as it will be) and is accepted, the franc will go far toward joining the mark.

The loan will be for 90 days with one renewal.

If our plan succeeds, returning confidence may save the franc. If it does not, and one hundred million dollars is withdrawn from the reserves of the Bank of France for the payment of this note in six months, the outlook for French industry and finance is dark.

We will make every effort to finish our work quickly. Spent the day going over various suggestions prepared by members of the Committee for the report.

General Pershing called me up to say he had finished his book on the war up to the date of the Armistice.

Received a letter from Marshal Foch, in his handwriting, saying he had adopted my pipe and sending me a photograph of himself as a "smoking comrade".

PARIS, March 12, 1924

At the meeting of the Committee this afternoon, I again brought up the matter of the drafting committee for the plan and proposed as members the chairmen of the two sub-committees, Young and Stamp, and, because of the important relation to the situation of France, M. Parmentier. This was agreed upon. I rather pressed this action and may possibly have caused a little dissent, but none was expressed.

Some of the members of the sub-committees are working very hard over certain difficult features of the plan, some of them technical in their nature, like the fixing of our index by which to measure Germany's future prosperity, and others of a less technical but even more important nature. Naturally there is some chafing under the continued pressure for speed. There is a psychology involved in the time of the promulgation of the plan. Things should be taken at their tide, and it is high tide now.

On the other hand, as Sir Robert Kindersley strongly urged, our plan must be well considered and matured, for mistakes made now cannot be corrected hereafter. He is bearing a heavy part of the burden of work and properly and justly feels that there is danger in being too fast. But what

must be attained is the maximum speed consistent with safety.

It is my ungrateful task to urge hard-working men to over-work. But the critical state of things demands strenuous effort on our part.

As we near the end, differences of opinion develop, but none which endangers as yet our unanimity. In getting the drafting committee started, the most important step toward finishing has been taken. Am greatly relieved to get such a good drafting committee. Young, with a modesty only equalled by his unique qualifications, suggested others for the Committee in his place, but did not prevail. Shall certainly be glad when this work is over.

Presented to the Committee the first draft of my letter of transmittal of the report. Will circulate copies. The reaction seemed to be favorable, but it must appeal to every one on the Committee, and time must tell how, if in any way, it is to be modified.

Owing to pressure of work on the sub-committees, the next session of the full Committee will be at 4 P.M. on Friday.

It is now apparently impossible to finish the report this week. Kindersley says it will take two weeks more. I hope it will be done next week.

So far, Stamp, Parmentier, Houtart and Young

have expressed their approval of the draft of my letter transmitting the report. Kindersley does not object, but reserved his opinion pending further consideration.

Am a little tired to-night, and humble in opinion ; but if I have done anything helpful so far, it is not more than to have had Young, Stamp and Parmentier named as a drafting committee. Of course, the full Committee can add to or subtract from what they submit to us ; but a great waste of time has been avoided by this method of dealing with the drafting of the report and their selection.

PARIS, March 14, 1924

As we near the end of our work, and as is natural, we find in evidence those proper fears of men who, with their peoples, have passed through war, to shrink from the consequences of action which may strengthen an old and in their opinion implacable enemy. It is at present manifesting itself in hesitation about authorizing a gold standard in Germany when her neighboring competitors are still struggling with unstabilized currencies. Even the Governor of the Bank of England has informally expressed apprehension as to this.

Certain French experts attached to Parmentier

and Allix have gone on record against it. Parmentier, however, shows no timidity in standing by the gold standard. We must not dodge issues. If we do not recommend the proper method of stabilizing Germany's currency, we are yielding to political considerations.

Another thing we face is the fear that the adoption of our plan, designed to secure the maximum Germany can pay, may create a feeling of hopelessness that inter-Allied debts can ever be met.

Again the fear is expressed lest we create the public impression that we are saving Germany without commensurately helping her creditors. The plan itself answers these things in part, but not entirely.

These expressions are simply the echo of a sentiment once almost universal in Europe that the Allies could prosper even if Germany was destroyed economically. Because of them, I have to be particularly careful in the wording of my letter of transmittal of the report to the Reparation Commission. It is the document which is designed to deal with mass opinion. My present draft, which to-day I have submitted to the members of the Committee, is restricted to about one thousand words.

In appealing to idealism, I must not create the impression that we have overlooked the principle

of justice. Yesterday I submitted the draft for the criticism of General Payot. He made only one suggestion, which I adopted, altering a part of a sentence.

Last night at a small dinner at Harjes', I went over the draft with Marshal Pétain and discussed it at length. He said that he thoroughly agreed with the wisdom of referring to the Allies as creditors and Germany as a debtor, and of emphasizing the general business nature of the adjustment which carries with it an impression of durability. He said he recognized the importance of having the statement such as reassured instead of frightening prospective investors in a loan. In short, he approved the draft. As the head of the French army, no one could appreciate more accurately the reaction to the letter in French military circles than the Marshal.

Referring to his own lack of knowledge of the English language and to mine of the French, he asked if I had much difficulty in making the French understand. I said, "No, while I do not understand the language of the French people, I believe I know their heart. This makes understanding easy."

And so it does, for after all in such a crisis as this, where concessions have to be made in a common interest, it is not the language of

diplomacy which counts, but that of the heart and conscience.

Unless we believe in each other's good faith, we are of little use in work of this kind.

We have a meeting of the Committee at 4 P.M.

PARIS, March 14, 1924 (continued)

We had a discussion of the German budget at this afternoon's meeting, and also of the system of Allied supervision or control. I pressed a system of co-ordination of those placed in charge of the "gages" similar to that established in the United States by Executive Order in connection with the installation of the budget system. The Reparation Commission, in this instance, represents Executive Authority.

The activities of the controls in Germany should be co-ordinated there by a General Co-ordinator—not so far as general policy is concerned, for policy is in the hands of the Reparation Commission, but so far as routine administration is concerned. It would result in confusion and constant irritation if each control was not subjected first to an authority concerned simply with the co-ordination of activities, but came direct with all matters to the Reparation Commission.

Nobody then would be on the ground with the



Left to right : Rufus C. Dawes—H. M. Robinson—Owen D. Young—Charles G. Dawes—A. Prelli

“bird’s-eye” view and with the harmonious working of the whole in routine matters in mind. Between the Reparation Commission and the controls should be a General Co-ordinator of routine administration over whose head, in case of differences, they could be appealed to the Reparation Commission. On the appeal, however, the Reparation Commission would have before them, not simply the *ex parte* statement of a man interested in only one activity, but also the statement of one who had considered the proposition in its relation to the harmonious and proper working of the whole enterprise.

These principles of a co-ordinated control over decentralized departments and establishments of government are very familiar to me since my experience in the American Expeditionary Forces and the budget system of the United States. The system we established is without friction and with efficiency now functioning in the routine business of the United States Government, all created by Executive Order.

In short, I am endeavoring to have appropriate application of these principles to this situation.

This evening my old friend Colonel Bunau-Varilla called again to take me for my fourth visit to the doctor, who, by degrees, has been burning out my tonsils. Think I have now finished,

but cannot cease to thank my friend Varilla for his unremitting kindness which has resulted in my being able to be continuously at work without "laying off" to have the tonsils cut out at once.

Rufus has gone for two days with General Pershing, who is visiting the cemeteries containing the American dead.

PARIS, March 16, 1924

The Committee met for three hours yesterday afternoon. The methods of securing for reparations a portion of the profits accruing to German industry through the wiping out of debts by the depreciation of the mark were considered. In this last period of our work, when the machinery carrying into effect accepted principles must be devised, the great burden of work upon those charged with it increases. Of this work, Sir Robert Kindersley has much to do, his long experience as a practical banker and business man, together with his ability to eliminate quickly the non-essentials of a problem, making him a most important factor.

The other day he was quite under the weather, and we were all much concerned. Yesterday, however, he was hard at work as ever, and was feeling better.

One cannot be surrounded by staffs of able

experts, as each member of our Committee is, without at least becoming an expert on experts. As I have frequently stated, I do not claim to be an expert—only a business man with some experience with the practical setting-up of organizations involving the settlement of principles as a preliminary.

The resulting organization should, of course, embody the recognition of correct principles. This sounds simple, and so far as experts are concerned who are consulted as to what constitutes correct principles and not charged with the responsibility of negotiation with others in setting up the machine to carry them out, it is the last word.

We cannot get along without preachers, but after reading all the time two sets of conflicting expert opinions, one from our own staff and one from the experts of other staffs, I recollect that preachers are not infallible and are not natural negotiators. Our experts have been of great service. Nevertheless, now, as we settle the final details, we have to endure criticism from them simply because the theoretically perfect settlement prepared away from the field of negotiation is not always in detail possible of accomplishment, since it has to be negotiated with those with different views who have equal powers with one's self.

“ Throw away the settlement ”, then says the preacher, “ and let hell continue.” “ Do the best possible, but always travel in the right direction ”, says common sense. “ You do not disregard principle by taking the preliminary steps which make possible its final and complete recognition.”

I am led to write the above by thinking over the controversy as to the gold standard for Germany which has arisen among the experts. I should like to see it adopted at once if it is possible. If not at once, I want to see it adopted as soon as possible. The experts, some of them, say it is possible now ; others only in the future. Along with the opinions of the staff experts, however, the opinions of practical bankers, face to face with actual conditions, like Norman, Governor of the Bank of England, and Schacht, Governor of the Reichsbank, have to be the basis of judgment.

In listening to what I may term “ extreme expertism ”, in regard to the way we handle this part of our report, I am inclined to think that it overlooks entirely the necessity of settling the economic situation in the Ruhr and other somewhat important matters. If experts could ever make themselves generally understood by the public, they would destroy by their doubts and discussions any proposed constructive plan. No one would ever get anything started. That has

been one trouble with the discussion of the Reparations problem for four years.

My brother Beman and his wife arrived from America yesterday.

PARIS, March 17, 1924

Both sub-committees at work to-day and next meeting of the full Committee is to-morrow afternoon. The frequent changes that are made in the detailed plans, like that of the bank, arise not out of a tendency to disagree but upon new conditions as they are developed by new contacts of the Committee. Every effort is being made to have the plan acceptable—one, therefore, in the mutual interest. Undue haste, resulting in overlooking chances of improvement or in not hearing the views of those like Schacht in contact with changing realities, is unwise.

We should finish, however, next week.

Saw Ambassador Herrick to-day and showed him my proposed letter of transmittal, which he said seemed to cover the situation properly. Save for a suggestion of Sir Robert Kindersley which I acted upon, no further changes have been suggested by members of the Committee.

PARIS, March 19, 1924

The meeting yesterday was given over to the discussion of the loan to be recommended in the plan. This will be from \$250,000,000 to \$300,000,000 in all probability. Time, security, relation to reparations payments, interest, etc., were discussed generally and subject goes back to banking sub-committee.

This morning the banking sub-committee settled properly the gold standard difficulty. It was decided that the bank should be established on a gold basis. If developments, after the bank starts off on this basis, indicate that it cannot be maintained, then by unanimous agreement of the management and all of the Board of Supervision, the change can be made. This is only stating what would happen anyway if the pressure for gold redemption exhausted the gold reserve—the basis would be changed then irrespective of charter stipulation.

Necessity and the right of self-preservation and the preservation of the essential rights of creditors govern in such a case, and not the rules applicable in ordinary circumstances.

So it is with banks of issue as regards the redemption from gold reserves of note issues.

By to-morrow morning the first rough draft of the report should be submitted by the drafting

committee. A number of points are still to be ironed out, but they will now be segregated and ready for general discussion.

The railway plan is ready for submission, along with the bank plan which is also completed. We should certainly be through by next week.

PARIS, March 20, 1924

Have spent the most of the day studying the first tentative draft of the plan. The summary preceding the more detailed statements in the second part of the report is chiefly the work of Young. It is most admirable. Indeed, the only modifications which occur to me are in matters relating to more emphasis on certain principles already outlined, such as the results to be expected from the application of the index of prosperity.

Young is one of those rare individuals who, with high capacity to condense his statements covering principles and supporting machinery, has a sense of the probable reaction of public opinion constantly in his mind.

Part II, which is largely the work of that genius in budgetary science, Sir Josiah Stamp, assisted by the able McFadyean, should successfully run the gauntlet of the economic critics as Part I will do in the case of ordinary business minds.

In my short covering letter I try for the average minds to cover what they will regard as essential to a general understanding of what is proposed.

In view of the prospective attack of the German nationalists, am considering adding a few sentences to emphasize the fact that rejection of the plan by Germany means the continuance of the existing condition of things.

A silly reference was made in a paper this morning about an alleged disagreement in opinion between Young and myself over Germany's ability to pay. Young and I have had no differences of opinion at any time.

We agreed last night that we would try to sail home on the *Leviathan*, April 22nd. The draft of the plan contains Parmentier's first memorandum on the Ruhr situation, practically unchanged.

At 5 P.M. we have a plenary meeting of the Committee, for which I am about to leave.

PARIS, March 22, 1924

We had the most important session of our Committee for weeks yesterday afternoon, for we discussed a tentative draft of the final report. No essential changes in the first part of the report consisting of the summary were made, although it

will be discussed again. By Wednesday of next week the few remaining matters involving machinery will be out of the way, and then for the next few days the final report will be considered. It is already well on the way and we should be able to sign it next Saturday.

Have made an addition to my letter of transmittal, putting up squarely what is involved for Germany if she declined to accept. What the world wants is truth. We must not fear the consequences of truth—only the failure to tell it completely.

This report will be unique in history, in my judgment, in the simplicity of its statement and its comprehensibility to the average mind. All the conditions which have so weighed on my mind have been met. To Young belongs the chief credit for the wonderful and epigrammatic statement made in the first section. It cannot be misunderstood.

The second part of the report must give to every one who reads it a sense of the breadth of the Committee's research and the thoroughness of its investigation. It is also a demonstration of its competency.

There are many details of which I could write, but of what consequence now are interesting details? We have evolved the plan, involving future peace, which the world must accept. With the

report issued in the form in which it is now developing, no Government can stand which dares oppose it. Nothing else matters.

General Pershing is soon to sail for America. Went to a small dinner which he gave. Marshal Pétain was there.

PARIS, March 24, 1924

To my great disquietude of mind, Robinson, of the Second Committee, told me last night that it was his idea, McKenna's and Jannsen's of that Committee, that we should postpone handing in the report of the First Committee until after the German Election, May 4th.

Saw Young the first thing this morning and he was surprised at this situation. He agrees with me as to the great mistake which will be made if we withhold our findings. Then saw Parmentier, who shares in the opinion of the necessity for our getting out our report by Saturday night if possible. I can conceive of nothing more disastrous than to purposely delay. Will note a few reasons :

1st. If, after arriving at a conclusion, we delay in announcing it, we are concealing truth from the world.

2nd. We have entered deliberately the domain of politics with a Committee organized so as to be presumably free from them.

3rd. Since the reason given for this proposed action is based upon the statements of Germans that they fear the Nationalists will win the election if the report is published at the present time, we will connive with German politicians to prevent the German people from knowing the real issue confronting them.

4th. Sooner or later the German people must decide their attitude as between a military and an economic settlement of their difficulties.

5th. If the proposed plan is foisted on them unawares, that fact alone will make them more liable to rebel against it later.

6th. The immediate proposal of the plan makes it possible to precipitate the issue now in the clearest possible way.

7th. If we do not present the plan now, the Allies may lose their unity of purpose in the meantime. By now adopting the plan, the Allies have restored the old Entente—by delaying it they endanger its very existence. In a month's time our Committee, in my judgment, may be in disagreement. Every weakness incidental to human nature will assert itself in disintegrating the present virtuous resolve.

8th. The immediate adoption of a report by our Committee which will be published to the world by the Reparation Commission will increase

to an enormous extent the pressure of world opinion, including German opinion, for the settlement.

This immediate demand of the world for its adoption isolates the German nationalistic demagogue in such a way that he cannot confuse the mind of the German people as to what issue exactly confronts them—peace and happiness, or misery and hopelessness. The German people must choose between Prussian leadership with the pride and ambition of a few as its motive, and the leadership of common sense striving for the welfare of all the people and for the return again of peace and good-will on earth.

I feel so strongly in this matter that, when our report is once completed, I shall not hesitate to precipitate the issue in such a way that it cannot be avoided. But I have no thought anyone on our Committee holds this absurd idea. No one has ever intimated in the slightest way that he did not wish the report published just as soon as it was properly completed.

Yesterday afternoon, General Pershing called and we had a long and pleasant visit. He sails tomorrow for home. He has worked night and day on his book in a way which he has found impossible in America because of the outside demands on his time.

PARIS, March 25, 1924

With France pressing for an early report from us, I cannot conceive of an effort being made to delay it which will have any effect. Sir Robert Kindersley and Sir Josiah Stamp have been absent in London since Friday night. They were to arrive here last night.

Young is directing his genius to the effort to have the report issued in proper shape. In its present shape, apart from the summary with which it starts, it commingles explanation with the statement of the plan. Young's idea is to have the explanation segregated and in a combined form follow the second portion of the report containing the plan under a heading "considerations which have led to the adoption of the plan". The annexes describing machinery will then form the last part.

He has called in Sir Arthur Salter to assist in this rearrangement and to segregate explanations so as to let the actual plan itself stand out clearly for the examination of the world. The plan and the summary will be "keyed in" so that one reading a paragraph of the summary can turn to the paragraph of the plan under the same letter and find it amplified.

The whole matter requires the exercise of high diplomacy. The plan is made up of the contribu-

tions of the members of the Committee. Pride of authorship is involved. The sense of the relative importance of statements is always blunted by the fact that one has worked hard over them. If included out of their proper place in the plan, they interfere with its logical and symmetrical statement. By making a place for everything under the caption "Considerations which have led, etc.", all will probably be satisfied.

To the clear vision and perspective of Young, to his genius—for such it is—will be largely due the clearness of the report.

This statement does not reflect upon the substance of the report, but relates to its arrangement.

The genius of Stamp, Kindersley, Parmentier, Francqui and Pirelli, for example, is exemplified in their practical, lucid and comprehensive contributions to the plan, and the plan is only exploited and made the more effective by proper arrangement in presentation.

It should not be forgotten that this is a European plan, created chiefly by Europeans, with the blessing of the American experts. In saying this, however, I should qualify it, as I know all my colleagues would want done, by saying that Young has been a most constructive element in its development at all times.

Am submitting to the drafting committee some suggestions as to rearrangement of paragraphs in the summary, and some few additions to them which Rufus has made and which seem to me most pertinent.

PARIS, March 26, 1924

Am so worried about the critical illness of my dear brother Beman's wife here at the hotel that I write with difficulty. She is now passing through the crisis of pneumonia.

This afternoon's meeting of the Committee will determine whether we can get the report finished by Saturday night or whether it will go over into next week. Barthou expressed to me this morning his anxiety that we finish. Sir Josiah Stamp worked all last night until four o'clock this morning.

The most of the machinery is done. The control of transfers has still to be discussed. The bank plan and the railroads plans are completed.

The figure of 2,450,000,000 marks surplus in a normal year in Germany is what will probably be the last estimate. Of this only 1,250,000,000 marks will be the budget surplus, the balance coming from the railroads and the industrial bonds.

Our experts and those who look upon our problem as wholly economic at such a time as this

are of little use. Some of them contend against a fixed minimum of payments. If this was done, France would block the plan. Some of them maintain that our estimates of revenue are too high. If we should materially lower them, Italy would probably block the plan as one destroying her hope of the means in the future of paying her foreign obligations.

For the estimates of the Committee the best experts stand. They are therefore based upon the best judgment of a group of experts and business men of large experience. Outside expert opinion is divided into two groups diametrically opposed to each other. This is evidenced by comment for instance on the gold standard provision in the bank plan as well as on many other things. It is evident why the application of common sense to the reparations problem has been so long delayed. Selfish interest could always find an expert opinion to justify its assertion.

Of the extent of the impenetrable and colossal fog-bank of "expert opinion" of which I spoke in my opening speech, I can now judge from first-hand experience. I had underestimated it. No one except he bears responsibility in connection with the entire situation and with knowledge of the whole plan is in position to give useful advice just now.

The woods are full of pewits trying to sing like nightingales.

These are critical, anxious days.

PARIS, March 27, 1924

Bertie continues in a critical condition and our apprehensions and anxiety are unabated. This evening, in some ways, there seemed a slight improvement.

At a long meeting of our Committee yesterday afternoon, the question of the control over transfer of payments on reparations was discussed and progress made.

At a session lasting from 4.30 this afternoon to 7.30 o'clock we discussed the budget figures, or rather the total surplus to be available for payments from the budget surplus, railways and industrial debentures for the years 1926-7, 1927-8 and 1928-9. The budget sub-committee had come to an impasse, Sir Josiah Stamp advocating a reduction in the figures, and Allix and Houtart standing for an increase.

Pirelli was responsible for the discussion before the full Committee in an effort to bring about a compromise. He opened the discussion in his clear and concise way. Sir Josiah Stamp's position was very strong, and he even went so far as to submit

a draft of a part of a minority report on this subject to the general plan. Knowing Stamp's intense desire for a unanimous report, was rather puzzled as to what was coming. What came was a strenuous discussion ending, after numerous sub-conferences in groups, in enough of an agreement in principle to ensure final unanimity.

Upon the figures for 1928-9 the sub-committee had reached a virtual agreement before the matter was brought to the meeting of the full Committee. The debate was therefore upon comparatively small differences in the two years preceding the year in which it is assumed that economic conditions in Germany will become normal, to wit 1928-9, involving for the two years the sum of about 400,000,000 marks, or 100,000,000. Made some general remarks during the debate along the following lines :

The figures under consideration were not so important as measuring German capacity to pay as they were in determining public confidence in the conservatism of our proposed loan offering. On the basis of the estimates for these first years we must be conservative or capital will fear the stability of the conditions under which its participation in our loan is solicited.

In ordinary business, if a man is considering making a loan upon the reports of different ex-

perts, he always follows the most conservative, provided their disagreement itself did not foreclose entirely his decision to act at all. It seemed to me that if Sir Josiah Stamp was absolutely fixed in his views, we were in the embarrassing position of having to accept them if he otherwise proposed to make a minority report.

To me it seemed incredible that Allied solidarity would be broken over a difference among experts dealing with the finances of a nation like Germany which involved the small sum in question for the two years. Since public opinion had been referred to in the debate as being involved, I asked what would be the reaction of public opinion if it was known that when we were in practical agreement as to what we could get under the plan during the third year, and thereafter, we threw away the unanimous agreement necessary to make the plan acceptable, and thereby threw away the plan itself.

Certainly it would be difficult to explain why we let a slip over a difference in estimates of 400,000,000 marks in the first two years destroy the chances of collecting 2,500,000,000 marks yearly, commencing the third year.

I pointed out that the four years' debate on reparations had demonstrated that expert opinion could always be found to support opposite sides of a debatable question involving estimates. That if

we split on this matter we had shown we were only “experts” and had gone the way of other “experts”, whereas we were far more than experts—we were sensible men trying to bring economic peace to Europe and preserve that which is absolutely essential to it—Allied solidarity in dealing with all questions—even as small a one as this.

To tell the truth, I don't think there was any occasion for me to say this, though of course it did no harm. It is absolutely certain that every one of the Committee is determined to agree. As a matter of fact, I admire the high courage and character of Sir Josiah Stamp, who knew that the issue must be fearlessly met and the figures reduced to an amount that every man on the Committee could honestly stand upon. He has been one of the “stand-bys” of the Committee always, not only because of his extraordinary technical qualifications, but because of his courage, his honesty and his constant kindness and tolerance.

The sub-committees are working night and day. The drafting committee is hoping to submit a second draft to-morrow. Details still remain unsettled in the industrial mortgages, the control of transfers, the bank and the index of prosperity. While not involving differences as to principle, they take time, and unquestionably everyone on the Committee is doing his best to get through.

The doctor and Beman just called with the news that Bertie shows a slight improvement.

PARIS, March 28, 1924 (Evening)

Bertie seems to have passed the crisis and her chances for recovery are now good. We are all inexpressibly relieved.

Have spent most of the day and will spend the evening in preparation of a memorandum covering the principles and machinery of the general control. Francqui's draft, submitted, is drawn upon the right principles, but in such a way that, in my judgment, the machinery is not such as to carry them out. The matter is extremely important. Time is so pressing on us that it cannot be discussed at great length and so I am trying to make my memorandum as strong and clear as possible. Everybody is at work in different sub-committees or individually to-day.

If all could realize the immensity of the field we have to cover, as perhaps they may when the report is issued, they would understand the cause of the delay.

This morning's papers say that Marx will decline to make the report the issue in the coming German elections unless it is issued by April 15th. I still hope for Thursday of next week—April 4th.

Some of our members are becoming worn and fagged out from over-work. Very heavy work is falling on Kindersley, Stamp and Francqui because of their unique qualifications for certain most important phases of it. Young, Parmentier and McFadyean are bearing a heavy burden in the drafting work.

Will attach my memorandum on general control when it is finished.

Having been concerned in creating and helping to administer a co-ordinating control over the services of the American Expeditionary Forces—over the Allied army supply activities in the zone of the advance, and in the budget work in the United States, I know the importance of this memorandum. Whether there is time for necessary debate to have it incorporated, I do not know.

PARIS, March 28, 1924

NOTE BY CHARLES G. DAWES
ON GENERAL ORGANIZATION OF SUPERVISION
(Covering Note of March 26 by M. Francqui)

The organization set up by M. Francqui is well conceived and sound. The additional machinery which I suggest in this memorandum, however, is essential for the carrying out of its principles. Before giving the reasons for the important ampli-

fication and the slight modifications in nomenclature, I will present M. Francqui's plan as I would change it.

Since all the members of the Committee have M. Francqui's memorandum, it should be read in connection with this text for purposes of comparison.

*I.—Form or Order suggested for establishing
Machinery of Co-ordination*

(1) COMMISSIONERS

According to the plans drawn by the experts the collection of the receipts assigned to reparation and the corresponding supervision are to be ensured by a Commissioner on the Bank of Issue, a Commissioner on Railways, a Commissioner on Mortgages and a Commissioner on Budget Accounts, the last-named to have under his control a certain number of sub-Commissioners severally entrusted with the special taxes under consideration.

It seems advisable for each of these four Commissioners to act independently of the other three. For this reason, it is necessary to establish liaison between them so that they may have the necessary unity of purpose and may be able to accomplish their respective missions with the desired co-ordination.

(2) GENERAL CO-ORDINATOR

This liaison must be entrusted to a General Co-ordinator, an official who would be the natural agent between the Reparation Commission and the German Government, and who would represent the Reparation Commission in Germany. He would issue to the Commissioners the general instructions necessary to bring about proper co-ordination between their activities.

(3) DUTIES OF THE COMMISSIONERS

Each Commissioner would enjoy the greatest freedom and the most complete initiative in his particular field. He would keep in close touch with the corresponding branch of the German department or the corresponding German organization, and would deal with this department or organization in complete independence in all matters within his mission.

The Commissioner on Railways will deal directly with the railway company in all questions within his competence, as indicated in the plan. The Commissioner on Mortgages will have free supervision over the business of the mortgage company, as provided for in the plan drawn up for this company. In the same way, the Commissioner on the Bank of Issue will be absolutely independent in the exercise of the functions assigned to him in

connection with this bank. Finally, the Commissioner on Budget Accounts will, for all questions within his competence, deal directly with the German organization entrusted with customs and excise taxes, and will moreover keep in constant touch with the German Ministry of Finance, which will supply him with all necessary data and information. In this way, if supervision of the budget became necessary, the Commissioner would be in a position to exercise it without loss of time.

(4) DUTIES OF THE GENERAL CO-ORDINATOR

Independently of the duties devolving upon the General Co-ordinator from the fact that he is the actual delegate of the Reparation Commission in Germany and from the authority which he exercises over the Commissioners, he will be called upon to receive to his credit in the Bank of Issue all funds assigned to Reparation.

In co-operation with the Committee on Exchange and after consultation with the Governor of the Bank and the Director entrusted with the service of Exchange, he will be called upon to effect the transfer of these funds in foreign currencies.

It is understood that these funds will first be transferred to the possession of the Trustee up to the amount necessary for the service (interest and

amortization) of the securities which he administers.

*II.—Form of Order suggested for establishing
Machinery of Co-ordination*

(1) The Commissioners will retain all responsibility for the conduct of their administrations, subject only to such co-ordinating policies as may be imposed in the manner indicated below.

(2) In order to enable the General Co-ordinator to perform his duties, there shall be organized a General Co-ordinating Board.

(3) This General Co-ordinating Board shall be composed of one representative named by each Commissioner, or the Commissioner, as he may determine. The General Co-ordinator shall be Chairman of the Board. He shall have the power to call meetings of the Board upon his own initiative.

(4) It shall be the duty of the Board to formulate policies and plans designed to harmonize the separate activities and to bring about uniform and business methods where such can be put into effect only by the exercise of co-ordinating authority.

(5) The General Co-ordinator shall be responsible for the efficiency of the Board and for developing it along practical lines. After a discussion by a meeting of the Board, his decision shall be final as to the co-ordinating action to be

taken, or policy of co-ordinating action to be proposed, subject to the right of appeal as hereinafter defined.

(6) The decision of the General Co-ordinator in all matters of co-ordination shall be transmitted to each Commissioner and shall be final, except that any Commissioner may appeal to the General Co-ordinator at any time within six days after the receipt of the notice of the co-ordinating order for a cancellation of the order, and if not sustained by the General Co-ordinator, may appeal from him to the Reparation Commission within six days thereafter. If such appeal is not taken or is not sustained, the decision in question shall stand and shall be published to those affected by the Commissioners.

(7) The General Co-ordinator, in gathering information for the use of the Reparation Commission, acts for the Reparation Commission, and his calls upon all administrative officers for purposes of consultation or information take precedence over the Commissioners.

(8) Commissioners and employees thereof are directed to furnish any available information desired for purposes of co-ordination, or to attend any conferences on co-ordination at the request of the General Co-ordinator. It shall not be necessary for any duly authorized representative of the

General Co-ordinator to secure the approval of a Commissioner to a request for information for use in connection with the activities of the General Co-ordinator or the General Co-ordinating Board. The only authorized agents of the General Co-ordinator or of the General Co-ordinating Board shall have access to all books and papers on the various controls which contain any information pertinent to the subject under consideration for co-ordination.

*III.—Discussion of M. Francqui's Plan,
as amplified*

In the definition of the duties of the Commissioner-General (General Co-ordinator) by M. Francqui, he is described as the one "who would be the natural agent between the Reparation Commission and the German Government, who would represent the Reparation Commission in Germany as its actual delegate, and who would issue to the Commissioners the general instructions necessary to enable them to accomplish their task under a single direction".

I believe that the use of the words "as its actual delegate" should be omitted, as it constitutes an invitation to the Commissioner-General (General Co-ordinator) (as forbidden elsewhere in M. Francqui's paper) to assume to speak finally

to the Commissioners in regard to administrative matters involved in the matter of co-ordination. In actual experience nothing has proved more important than the strict limitations of the powers of a co-ordinator, so that he does not step out of the field of co-ordination into that of administration.

The paragraph relating to the Commissioner-General (General Co-ordinator), as it stands at present, might be assumed to give the Commissioner-General (General Co-ordinator) the power to express, in Germany, the policy of the Reparation Commission, outside that of co-ordination.

Further emphasizing the real authority and the limitations thereon of the Commissioner-General (General Co-ordinator) referred to in M. Francqui's memorandum, I regard it essential that his title be changed to that of General Co-ordinator or some other, not involving the use of the word "Commissioner". The name of "Commissioner-General" indicates a similarity in his duties with, and a rank over the Commissioners which inferentially gives the idea of administrative responsibility.

In connection with these suggestions, I will state my conception of the functions of the Commissioner-General (General Co-ordinator) as

a co-ordinator and the limitations which should accompany the definition of his powers.

As a co-ordinator, the Commissioner-General (General Co-ordinator) reviews the activities of the Commissioners simply as related to each other. If he finds duplication of effort, overlapping of the fields of administration creating unnecessary friction, and generally, any matters interfering with the harmonious movement of the business administrations in their respective but general parallel fields of activity, then and then only can he be called upon to act. Unless in the grant of his authority there is given the right of appeal, on the part of the Commissioners, to the Reparation Commission, against any co-ordinating orders that he may make, the Commissioner-General (General Co-ordinator) under the immutable laws of human nature will, in addition to his proper duties, undertake to interfere in internal administration of the machinery of the Commissioners. In case the Commissioner-General (General Co-ordinator), having a bird's-eye view of the general operations of the Commissioners, sees the advantage of some acts of co-ordination, it should be within his authority to order them. Certain orders of co-ordination, however, apparently in the interest of the whole scheme, might so embarrass the internal administration under one Commissioner as to in-

jure his unit to a greater extent than it benefited the whole.

Whenever, in the judgment of a Commissioner, this is the effect of a co-ordinating order of the Commissioner-General (General Co-ordinator), unless it is adjusted directly between the Commissioner and the Commissioner-General (General Co-ordinator), an appeal must lie from the Commissioner to the Reparation Commission. In such event, the Commissioner-General (General Co-ordinator) and the Commissioner (or Commissioners) affected, would each present their case to the Reparation Commission for a decision, the one stating the useful effects of the co-ordinating order as related to the whole administration of the different services, and the other stating the offsetting and injurious effects upon his particular activities. The existence of the right of such appeal on the part of the Commissioners will have a most salutary effect upon the relations of the Commissioner-General (General Co-ordinator) to the Commissioners. Each is concerned with avoiding unnecessary controversies before the Reparation Commission, and therefore both desirous of reaching an amicable agreement to avoid the appeal.

In actual practice it will be found that the Commissioner-General (General Co-ordinator), if competent for his place, will become the natural

and welcome liaison between the separate administrations, passing on, from one to the other, that information bearing upon the whole situation which enables each to exercise their independent authority in such a way as to further the common interest.

In the description of the Commissioner-General (General Co-ordinator) I would not call him a "high official" or use words which encourage the idea on his part that he is anything but a natural harmonizer of independent effort with the power, subject to the right of appeal to the Reparation Commission, on the part of the Commissioners, to impose those reasonable orders of co-ordination, the necessity for which exists in all organizations composed of sub-divisions, whether it be a Government or a business organization.

In connection with the situation proposed to be created as regards a co-ordinated control of the separate activities under the Reparation Commission, to be set up in Germany, my experience qualifies me to speak. I am acquainted with the difficulties which arise from the instinctive rebellion of the head of a subordinate organization against a superimposed co-ordinating control. If the title of the agent of co-ordination in the new system in the United States had been such as to create the impression that in matters of administra-

tion he ranked the Cabinet heads of the departments or the heads of the independent establishments of Government, such as would have been created by giving him a title similar in its nature but involving the suggestion of a higher rank, successful functioning would have been wellnigh impossible.

Not only would the title of "Commissioner-General" be resented by the Commissioners, as not indicating the true nature of the relations between the Commissioner-General (General Co-ordinator) and the Commissioners, but such a title conveying the idea of the centralization of power, which does not really exist, would create an impression in Germany that they were in effect subject to one man instead of the Reparation Commission.

As an amplification of M. Francqui's plan, I am suggesting some additions. It is evident that the General Co-ordinator must be in constant touch with routine functioning of the separate Commissioners. Unless provisions are made for his constant knowledge of and proper contact with this functioning, and if, in the gathering of information, he would not act always on his own initiative without notice, he might be looked upon by the Commissioners as merely a detective and meddler. He should therefore preside over a Co-ordinating Board consisting of one member named

by each Commissioner. This Board, under the Chairmanship of the General Co-ordinator, should meet at stated intervals where the discussions relating to co-ordination should be had. The outlining of the common situation which would be had, might suggest the difficulties of new co-ordinating orders, on the modification of those already in effect. This constant interchange of views with the General Co-ordinator by men subject to the authority of the Commissioners would give the General Co-ordinator an idea as to the probable effect of the issuance of a proposed order of co-ordination, and would have its own influence upon its acceptability to the Commissioners. Such continued contact would tend to prevent the issuance of co-ordinating orders without a full realization of the way in which they would operate.

IV.—Final Observations

The head of a separate service is not competent to be the sole advisor in any action of co-ordination.

Co-ordinating action must always involve the authority of the Reparation Commission, direct or by express delegation. The Commissioners should be encouraged in devising and suggesting better methods of co-operation between their separate activities. No system of conferences, however, not

under authority, will be properly conducive to improvement in conditions, since they would depend for success upon a voluntary cession of authority or upon negotiated arrangements for the performance of one duty in agreement of two or more masters. This was the trouble with the Allied co-operation in the last war.

CHARLES G. DAWES

PARIS, March 29, 1924

Owing to Sir Robert Kindersley's illness, no meeting of the full Committee was held to-day, but all members are working and no time is being lost.

Mr. Francqui called at my office at 18 rue de Tilsitt this afternoon and accepted all the suggestions outlined in my paper on "Organization of Supervision in Germany". The Committee, if it adopts this, will in effect establish the same nature of control over Allied activities in Germany that we established in the United States by Executive Order in the reorganization of Government business in connection with the budget system. Our next full meeting will be on Monday at 3 P.M.

The draft committee will have the plan in its final arrangement before that time and it will be distributed among the members.

Bertie continues to improve and we think she is

out of danger. She was at one time so low that it almost seems she has risen from the dead.

PARIS, Monday March 31, 1924

Worked this morning on the form of the general statement in the plan for the General Co-ordinator and the Co-ordinating Board. The point is made that the name General Co-ordinator is not susceptible of translation into a name of equivalent meaning in French. We will finally settle on a name "Agent for Reparations Payments". The point is to avoid the title which creates the idea of possession of a power over administration, except as related to a necessity for co-ordination and to other functions specifically enumerated like the connection with reparations transfers.

It is always easy for one having real power to exercise it if it is not done with needless ostentation or with a title especially calling attention to it.

I consider this matter as one vital to the success of the whole scheme, and am gratified at the thought that our American experience has shed some light on the proper solution.

The sub-committee on railroads is at work this morning because Francqui has suggested some changes at the last moment.

Under Young and Stamp the draft of the plan

is steadily assuming its improved and final shape. To Young must go the chief credit for making a document as long and abstruse as the Treaty of Versailles, and as important, so clear and convincing that it will reach the common understanding of the world.

PARIS, April 1, 1924

At our Committee meeting, the last of the controversial points were cleared up and the completion of the draft is the only thing between us and the end of our labors. The draft itself is almost completed and is being printed. This week should see us through, and the formal presentation of the plan to the Reparation Commission should take place on next Monday.

My suggestions elaborating Francqui's note of a General Co-ordinator and a Co-ordinating Board were again discussed and agreed upon. It was suggested by M. Pirelli that the device proposed would so lighten the labors of the Reparation Commission that it might be looked upon by them as taking away their prerogatives. He admitted that the arrangement was necessary and proper but feared the effect upon the minds of the Reparation Commission. I agreed that the matter should go into the "annex" rather than be emphasized in the beginning of the report, in order

not to put a premium on long debate and a delay in the adoption of the report by the Reparation Commission if they should take the view referred to by M. Pirelli. The mere statement of the machinery will, in my judgment, ultimately result in its adoption.

For the Reparation Commission to attempt to deal with five Commissioners located in Germany without the intervention of a co-ordinating agency will itself demonstrate its absolute necessity. If the administration of the plan is to work smoothly, it must be adopted; and if not adopted at first, because of ulterior or personal reasons of the Reparation Commission, it will be later by force of circumstances.

It is in the best interests of the Reparation Commission, of the Allies and of Germany. It is of overwhelming and vital importance to the smooth working of the entire plan in Germany in the future.

PARIS, April 3, 1924

The meetings of our Committee yesterday and the day before were most important and very long. Yesterday afternoon every point was resolved subject to the right of a member to file suggestions with the drafting committee, which, if they concerned only the form of expression, would be dis-

posed of by the drafting committee. If they involved essential ideas, the drafting committee would report them back to the full Committee for decision.

I anticipate no further delay except as involved in drafting and printing. We should get the report delivered to the Reparation Commission by Monday at the latest.

The drafting committee has a task whose difficulties and exactions are only equalled by its responsibilities. To Young, Stamp, Parmentier, and McFadyean the gratitude of all is due. Stamp is simply indefatigable. He is very patient in listening to others, a rare quality in a man of his intellectual quickness and breadth of perception.

McFadyean, the General Secretary through all our work, has been an invaluable and constructive element. He has not only the qualifications of an economist but years of experience in dealing with difficult inter-Allied problems. He is an accomplished linguist. His quick mind never makes a misinterpretation. Now, in the preparation of the report, his services were never more valuable. Much of the report he has written himself. In whatever may be the result of the Committee's work, our General Secretary has had a large share.

I understand our experts feel the full plan should be submitted to them for their comments

and criticism. If this course would be followed by the members of the Committee, I am afraid we should never get through.

We owe to our unusual staff of experts—as do other members of the Committee to theirs—much of whatever of merit the plan contains, but as I have said before, there comes a time when decisions must be made, not simply discussed.

We have enough trouble being so-called experts ourselves. The opinions of outside experts given at this time upon the plan now matured after eleven weeks' work would have as much effect on our Committee as snowflakes falling on a red-hot stove.

Retouched my covering letter transmitting the report for the last time and delivered it to the General Secretary for printing.

Rufus is planning to leave for home this week. He has played a most important part in this work, and as chief of the staff of our experts has acquired a comprehensive knowledge, not only of the plan, but of its economic environment, that makes him an authority on the subject. The notes he has made from time to time have a permanent and unique value from many standpoints.

Later.—Have just returned from the office where I had a conference with Young. He stayed

up until after midnight last night working on the report. This morning Stamp says that the Italians and Belgians are talking of opposing the retention of the summary in the report, over which Young has worked so hard, and the inclusion of which makes the report unique in its general clearness and understandability.

We talked over the attitude also of some of our American experts who want the opportunity of putting in some final remarks or criticisms. Agreed that it was advisable for their own peace of mind to let them have a copy of the report now being transcribed. So far as affecting the final form of the report, what they may say is negligible, but as affecting their own peace of mind it is, of course, important.

Their general attitude, valuable as their assistance has been, well illustrates why international bodies, largely dominated by expert rather than practical opinion, get nowhere. What is happening all around in these last days is simply the rising again into the situation of those selfish traits of human nature which have brought all Europe to the brink of ruin.

Now that a unanimous report is in prospect, the great necessities of the situation—temporarily, thank Heaven!—must take the background in the minds of those near it for the careful considera-

tion of the personal effects on a few individuals of an attempt at a settlement of the world's difficulties.

If Young's magnificent summary, now appearing in the first part of the report, is abandoned, it will only be because it too clearly impresses his American individuality and initiative on the common effort—at least in my judgment.

If it suffers, it will be because of its transcendent merit. Editorial comment all over the world will be influenced in its general favorable attitude by what it contains. I will be personally surprised if some objection is not made at the last minute to my covering letter. When the issue is raised at the last meeting against the summary—if it is—I shall be heard. Well, at any rate we have done the best we could.

Am passing through one of the times when the duty of long-continued temperance of expression and action is irksome, but imperative.

Poor Parmentier is so over-worked that he is almost "all in". Sir Robert Kindersley has been for a number of days working from a sick bed. Human nature is not all bad after all.

PARIS, April 4, 1924

Did some missionary work to-day among the Committee in the matter of the inclusion of the

Young summary. I think it will go in without question.

Our Committee is not small of nature.

If I ever at times seem critical it is because of over-anxiety. It is so easy to ascribe a lack of sincerity to one who honestly does not agree with you. Everything that has happened has proved that the Committee has risen above small things. I withdraw everything I have said which seems to indicate my opinion to the contrary—provided always the summary appears in the report.

The report is in the hands of the printer. Corrected the proofs of my covering letter as Chairman.

Rufus and Jean left this morning for England, thence to sail for home.

Last night Caro and Jean, Rufus, Beman, Carlos and I took dinner together—a family party. Took lunch with Colonel Bunau-Varilla and Mr. Walter of the London *Times*.

Without question, we should have our meeting with the Reparation Commission at which the report is to be delivered to them on next Monday morning.

PARIS, April 5, 1924

At the beginning of the meeting of the Committee this morning I made a statement. I knew that the matter of the inclusion of the summary in

the report was subconsciously in the minds of all and must be settled. It is impracticable to reproduce what I said except in the most general way.

In order to show the importance of the summary to the whole report, I gave the nature of the criticisms which, to influence public opinion, would be made if the summary was omitted. It would be claimed that the report was pro-German because so fair and judicial in its nature. The clauses ensuring justice were concise, exact and sufficient, considered by themselves. But the language and space used to convey fairness was necessarily so long that the ordinary mind would not appreciate the correct relation of the ideas to certain matters like the military occupation.

I asked Parmentier, as a Frenchman, not as an understanding expert, to read side by side Section 3, "Military Aspects—Contingent Sanctions and Guarantees", in the summary and in Part I of the Report, and he would see what I meant. What would the average Frenchman assume as to the care taken to protect France if he read what is in the 3rd section of the first part of the plan by itself? He would receive the idea that the welfare of Germany was more in our minds than the protection of France. Section 3 of the summary conveys the opposite and proper idea.

I strongly combated the idea that underlying

differences of psychology exist as to elemental things among Allied peoples, making some less susceptible to the clear and concise presentation of truth than others. If any had that impression it was because of some national tradition and custom which had influenced his judgment. I illustrated this by the example of certain new methods of business originating in America and adopted in England, which had demonstrated by their success with the masses that tradition was unrelated to mass psychology.

I said the report, if it included the summary, could not be improved upon—at least by us. That in the summary, almost alone, was that idea of authority—of leadership—of certainty of opinion and definiteness which the world, confused by economic discussion, desired of us and from us. That if the summary was omitted, it was defective. Made many more points, but this will suffice to show the trend of my argument.

When I finished, Pirelli spoke up and said he had not been happy about the summary but now agreed it was right. All the rest of the Committee seemed to acquiesce. However, later in the session, Sir Robert Kindersley, while recognizing the force of what had been said, still confessed uneasiness as to the English reception of the summary, while admitting its value over American opinion.

To meet these doubts about the universality of the appreciation of correct methods of presentation of fact and truth, a note will be added at the bottom of the summary to the effect that it is a summary and "not guaranteed" to the same extent as is the plan. This is a mistake, but makes little difference. It is a gratification to find in every discussion an evidence that no one is thinking of himself but only of what is best and right.

Young's great summary will now stand in the report and I feel honored to have had a chance to help ensure this.

Young personally did not take part in the discussion. Everybody, including now the printer, is busy at work.

PARIS, April 8, 1924

We are finished and the proof of our report is finally corrected and in the hands of the printer.

Our meeting with the Reparation Commission for the delivery of the report takes place to-morrow morning. The past three days have been so full that I have had no time to write. Our sessions on Sunday and Monday consumed seven hours each, and the time between meetings was largely taken in revising and settling last-hour suggestions of changes, additions, or revisions in our report.

The summary which Young prepared is a part of the report. While its intrinsic merit is chiefly responsible for its survival against the apprehensions of many of our colleagues based on its upsetting of traditional methods of formulating documents of this nature, it fell to me to defend it before the Committee, since Young, being the author, declined to take part in the discussions. It was a welcome task and has ended well.

The presentation of our report, in my judgment, marks a new era in the form of such documents. Hereafter it will not be considered sufficient for the signers to have so prepared it that they alone can understand it, but it must be comprehensible to the ordinary mind.

We have shown that this can be done. If the influence of the form of presentation is what I believe it will be on similar statements in the future, then, irrespective of the practical effects of the document on the present situation, we have saved the world hereafter a lot of unnecessary trouble. I think of the Treaty of Versailles. But of course this is not the great thing on our minds to-day. What we are thinking of is the reaction of our work on the public conscience of the world. It is that which fundamentally must decide its fate. Its appeal to the intelligence and common sense of the public is essential—the appeal to conscience fundamental. If

we have erred it has been in all honesty. We have done our best to do right.

MY LETTER AS CHAIRMAN TRANSMITTING REPORT
TO THE REPARATION COMMISSION

April 9th, 1924

Your Committee of Experts has unanimously adopted a report upon the means of balancing the budget of Germany and the measures to be taken to stabilize its currency, which I now have the honor to submit.

Deeply impressed by a sense of its responsibility to your Commission and to the universal conscience, the Committee bases its plan upon those principles of justice, fairness and mutual interest, in the supremacy of which not only the creditors of Germany and Germany herself, but the world, have a vital and enduring concern.

With these principles fixed and accepted in that common good faith which is the foundation of all business, and the best safeguard for universal peace, the recommendations of the Committee must be considered not as inflicting penalties, but as suggesting means for assisting the economic recovery of all the European peoples and the entry upon a new period of happiness and prosperity unmenaced by war.

Since, as a result of the war, the creditors of Germany are paying taxes to the limit of their capacity, so also must Germany pay taxes from year to year to the limit of her capacity. This is in accord with that just underlying principle of the Treaty of Versailles, reaffirmed by Germany in her note of May 29th, 1919, that the German scheme of taxation must be "fully as heavy proportionately as that of any of the Powers represented on the Commission". More than this limit could not be expected, and less than this would relieve Germany from the common hardship and give her an unfair advantage in the industrial competition of the future. This principle the plan embodies.

The plan has been made to include flexible adjustments which, from the very beginning, tend to produce the maximum of contributions consistent with the continued and increasing productivity of Germany. The conservative estimates of payments to be made in the near future are dictated by business prudence in outlining the basis of a loan, and should not destroy perspective as to the effects to be registered in the aggregate of eventual payments, which will annually increase. With normal economic conditions and productivity restored in Germany, most hopeful estimates of amounts eventually receivable will be found to be justified. Without such restoration,

such payments as can be obtained will be of little value in meeting the urgent needs of creditor nations.

To ensure the permanence of a new economic peace between the Allied Governments and Germany, which involves the economic readjustments presented by the plan, there are provided the counterparts of those usual economic precautions against default recognized as essential in all business relations involving expressed obligations. The existence of safeguards in no way hampers or embarrasses the carrying out of ordinary business contracts. The thorough effectiveness of these safeguards should not embarrass the normal economic functioning of Germany, and is of fundamental importance to her creditors and to Germany.

Great care has been taken in fixing conditions of supervision over Germany's internal organization so as to impose the minimum of interference consistent with proper protection. This general plan, fair and reasonable in its nature, if accepted, leads to an ultimate and lasting peace. The rejection of these proposals by the German Government means the deliberate choice of a continuance of economic demoralization, eventually involving her people in hopeless misery.

In the preparation of this report, the Committee has carefully and laboriously covered the

broad field of investigation. It has had the constant co-operation of able staffs of experts, gathering information, digesting it and presenting it. It conducted, on the ground, an examination of the officials of the German Government and representatives of its labor, agriculture and industry. It received from the German Government and its representatives voluminous and satisfactory answers in response to its written inquiries. In connection with various features of its report, both for gathering information and for advice, it has called to its assistance outside experts of international reputation. The published reports and statements of economists of world-wide standing have been in its hands. It has had the benefit of the accumulated information heretofore gathered by your Commission.

In its work, the full Committee has held, since January 14th, 1924, 54 meetings; the sub-committee on the stabilization of the currency, composed of Monsieur Parmentier, Sir Robert Kindersley, Monsieur Francqui and Professor Flora, assisted by Mr. H. M. Robinson, under the chairmanship of Mr. Owen D. Young, has held 81 meetings; and the sub-committee on the balancing of the budget, composed of Professor Allix, Baron Houtart and Monsieur Pirelli, under the chairmanship of Sir Josiah Stamp, has held

63 meetings. They have had the assistance of Mr. Andrew McFadyean, the General Secretary. Again, the time of the Committee, outside of that consumed by the meetings, has been given largely to investigation and study.

In speaking of my colleagues and as bearing upon the value of this report, I feel that I should make it known to your Commission and to the world, that their Governments have in no case limited their complete independence of judgment and action, either before or after their appointment by you. Limited only by the powers granted by your Commission, each has performed his arduous and responsible work as a free agent. These men, searching for truth and advice thereon, were answerable only to conscience. In granting this freedom, the Governments have but followed your own spirit and intent in constituting the Committee, but in so doing, they have paid the highest tribute which Governments can bestow ; complete confidence in a time of crisis in human affairs. In their vision,—in their independence of thought,—and above all, in their spirit of high and sincere purpose, which rises above the small things over which the small so often stumble, my colleagues have shown themselves worthy of this trust. That their work, which I now place in your hands, may assist you in the discharge of your great

responsibilities, is their prayer, and the knowledge hereafter, that it has done so, will be their full reward.

Signed: CHARLES G. DAWES
Chairman

PRESS BULLETIN
REPARATION COMMISSION
COMMUNiqué 231

PARIS, 9th April, 1924

The Reparation Commission met this morning at 10 o'clock, with M. Louis Barthou in the Chair, with a view to receiving the reports of the two committees appointed by it.

One of which was entrusted with the considering the means of balancing the German budget and the measures to be taken to stabilize the currency.

The other with considering the means of estimating the amount of exported capital and of bringing it back into Germany.

General Charles G. Dawes, Chairman of the First Committee, in presenting the report of that Committee (of which copy herewith) delivered the following speech :

“ I have the honor to submit to you the report of your Committee of Experts, unanimously

adopted, upon the means of balancing the budget of Germany and the measures to be taken to stabilize her currency.

“In view of the comments in my covering letter, which I am handing you, I will not add anything, except to again express our appreciation of your confidence and the kindness and consideration with which you have treated us.”

Mr. Robinson, on behalf of the Second Committee, presented M. Barthou with the report of that Committee (of which copy enclosed) and with the letter signed by Mr. McKenna, Chairman, who was unable to attend the meeting, having left for London.

M. Louis Barthou then delivered the following speech :

“ Gentlemen :

“The Reparation Commission receives from you with the most sincere gratitude the two reports which it has been awaiting in fullest confidence. When I had the honor nearly three months ago of inaugurating your committees on its behalf I told you what hopes we had placed in you. You have exceeded these hopes, thanks to an unceasing labor to which the whole world, when aware of the difficulties and strains of your heavy task, cannot fail to do justice.

“Of course one cannot expect your conclusions, even though unanimous, to meet with unanimous approval in the face of a public opinion shaken by so many passionate controversies and so many conflicting interests. But no one can dispute the technical value and moral authority of such important studies, to which disinterested men, urged by no other desire than that of ensuring peace through a just observance of the treaties, have, with unshaken impartiality, given the whole of their experience, competence, and devotion.

“Conscious as you were of your responsibility, you have omitted no means of inquiry, investigation or verification. You have declined to come to a hasty conclusion, before obtaining full knowledge of everything it was possible for you to know, and you have, for such time as was necessary, given up your duties and professions in favor of the huge task you had so courageously consented to undertake. We are deeply grateful.

“No one will be surprised if I pay especial homage to the American experts, who have come from so far, and whose collaboration is an event the unusual importance of which, while understood by all, is one to which time alone will give its full meaning. Your work has opened a new era in the troubled history of this unstable peace, in which humanity seeks to recover its balance.

“As soon as your advisory mission comes to an end, the Reparation Commission will resume its deliberative functions, which derive from the Treaty of Versailles. We are aware of our difficulties and of our responsibilities. We shall approach them with the same good faith and good will as have governed your conclusions. We constitute a court before which appear, not conquerors and conquered, but creditors and debtors, whose rights and liabilities have been fixed by public contract. The Reparation Commission has to settle the terms of that contract and its mode of execution. We shall be guided only by our consciences, inspired, like you, by the most loyal desire to bring at last to the world the joint blessings of Right and Peace for which it longs.”

ROME, April 13, 1924

Last Wednesday, when we formally handed our report to the Reparation Commission, seems a month ago—so much has happened since. From now on, these notes will not concern themselves primarily with the report. Its fate is in the hands of others, and whatever it may be, is so important to humanity that it will not lack commentators.

The Press bulletin describes the ceremony of delivery and contains Barthou's speech. All that

has happened since confirms my opinion long held that the Allies and Germany will accept it as the basis of the new peace.

At 2.15 P.M. Wednesday, I took the train for Brussels with M. Francqui, to pay a farewell visit to my dear friend, Van de Vyvere, Minister of Economics.

Van de Vyvere met me at the depot and took me and Mr. Hollingsworth, of the Associated Press, to his home. In the evening we went to dinner at the home of M. Francqui, where the guests were Van de Vyvere, Mr. and Mrs. Jannsen and myself.

In the morning, Van de Vyvere, Hollingsworth and I took a walk. At noon, M. Theunis, the Prime Minister of Belgium, gave a lunch at which Mr. Huymans, Minister of Finance, Van de Vyvere, Mr. and Mrs. Jannsen, André Cerlinden, Chief of Cabinet of the Minister of Finance, and I were present. Discussed our report.

Theunis expressed himself as greatly pleased with it, and said his Government would press its immediate acceptance. Told how he had quoted me on the Ruhr in his Parliament and had been interrupted from the floor by a request to add my explanation of its effect on French opinion as well as that on German opinion. Had a very interesting time.

Had not expected to see the King, as he had

been ill, but Van de Vyvere received word that he wanted me to call and that his automobile would come for me at 4 P.M.

Was taken to Laeken, his country palace. He received me alone and my visit consumed nearly an hour. Albert is not only a King but an extremely intelligent and able man. He had read the report and his questions went direct to the gist of things. He expressed his strong approval of it and especially commended the statement that it should be regarded as indivisible.

His comments on its clearness and form of presentation were such that I told him he should have been on the Committee and we would have been saved a lot of debate. He knew all about our budget work in the United States, and made interesting comparisons with the Belgian budget problem. He was complimentary in his personal remarks. He spoke of his regard for my friend Van de Vyvere.

Took the 6.45 P.M. train for Paris, arriving at 11.35 P.M.

On the next day (Friday), Caro and I left for Rome, arriving here yesterday (Saturday) at 2.40 P.M. After what had happened at Brussels, was prepared to some extent to be well treated—but have been a little overwhelmed by it after all.

Premier Mussolini had sent a representative



Left to right : H. M. Robinson and the Rt. Hon. Reginald McKenna of the
Second Committee of Experts

and an automobile to the depot. Baron Geisser Celesia, of the Foreign Office, who came, has been with us most of the time since. Many others—mostly reporters and photographers—were at the depot, and I was afraid I would not be able to see Rome, to visit which I had looked forward all my life. But I stopped at my hotel only ten minutes, and then drove with Caro and Baron Celesia direct to the Forum and Colosseum. Here, thanks to the Baron, I was taken over the Forum by Mr. Bonelli, one of the officers in charge of excavation under Senator Boni, the great archaeologist. The delights of this afternoon I shall never forget.

Such has been my interest in Roman history that once in the war in France I drove thirty miles out of my way to see a few stones and a coin which our engineers had dug up from a newly discovered Roman road—their discovery by the way.

Here I was suddenly placed in the midst of a bewildering number of Roman ruins, of which I had read from childhood, but of whose grandeur no true conception had ever come to me.

Mr. Bonelli seemed as anxious to answer questions as I was to ask them—and I certainly kept him busy.

After the entire afternoon, I was taken to Premier Mussolini's office where I had a visit with him. I have never met such a strong personality.

He seems in appearance a composite of Napoleon Bonaparte and William McKinley. He is energy, strength and alertness personified. He discussed our report with me. He wanted to know whether I thought Germany would accept without the total of reparations being fixed.

I asked him how many Italians there were who knew the total of the Italian national debt, or for that matter, what percentage of a nation's population ever thought of its total debt.

The individual is interested only in his annual taxes and their relation to his individual prosperity. Reparations, therefore, were a question of the imposition of the maximum annual taxation which individuals would bear without decreasing their productivity. The annual maximum which could be extracted could be multiplied by such a number of years as the Allies decided in fixing total reparations.

He strongly approved of our report and said complimentary things about myself.

After leaving him, I felt as if I had seen Julius Caesar.

This morning Baron Celesia called and took us to the Palatine Hill.

Again Mr. Bonelli met us and I passed one of the most interesting mornings of my life. At Senator Boni's invitation I called upon him and

passed a wonderful hour with a wonderful man. He is nearly eighty years of age and very feeble, but his mind is as active as ever. It is stored with knowledge, not only of archaeology but other subjects of like importance, of which he is a master. I left him with a great regret. He gave me two beautiful stones from Domitian's Palace as a souvenir.

After we had spent two hours on the Palatine Hill, we drove for another hour, stopping at the Vatican and the Pantheon. Received a cable through Logan from Secretary Hughes which I attach.

I suppose for a Chairman of an important Committee like ours, overpraise is inevitable if its work is successful. It is little use to protest against it, I have found.

We dine with Ambassador Fletcher to-night.

April 12, 1924
From AMEMBASSY, PARIS
To AMEMBASSY, ROME
Dated, April 12, 5 P.M.
Received, April 13th

No. 6.

For General Dawes. Delighted transmit cable for you just received.

"I send my personal congratulations upon

your great achievement and I trust that through your unselfish and most able efforts, the way has at last been opened to European Recuperation with all its resulting benefits to the world.

CHARLES E. HUGHES "

Logan

S.S. LEVIATHAN,
At sea,
April 23, 1924

Wrote the last of these notes on Sunday, April 13th, at Rome. On the next day, Monday, was entertained at lunch by the Italian Minister of Finance. About eighteen were present, including my able colleague Mr. Pirelli, and Henry Fletcher, our Ambassador to Italy, and the members of the Italian Cabinet. Left for Naples in the afternoon, arriving in the evening.

Of my wonderful time among the antiquities of Italy I need not write as irrelevant to the subject matter of these notes. The Italian Government had notified the authorities in charge at Pompeii and at the Naples Museum of my coming, and they accompanied me. Dr. Della Corte accompanied me through Pompeii.

I sent a telegram to Premier Mussolini expressing my appreciation of their unusual kindness.

Returned to Rome the next morning, and

before leaving at 5 P.M. for Paris had a chance to visit the National Museum at the Baths of Diocletian.

Arrived Paris Thursday night. Van de Vyvere, from Belgium, met me and spent the morning.

Saw Logan, to whom the new economic peace will largely owe its origin.

At eleven o'clock, Young, my brother Beman and I called by appointment on M. Clemenceau. He talked to us for fully an hour. Although eighty-four years of age, he conveys with his energy and force of expression and a vigorous physique the impression of youth.

His talk was of the future of France and of Europe, through which ran a note of pessimism. He congratulated the United States upon having an ocean as its frontier. Europe, he said, had been built up by violence. He doubted, therefore, if we were safe in assuming that Germany would ever show good faith in its acceptance or carrying-out of the plan presented in our report.

Later in the afternoon, accompanied by my gallant and distinguished friend Colonel Philippe Bunau-Varilla, I left cards at the residences of President Millerand, Premier Poincaré and M. Barthou.

Saturday morning we left for England, arriving at Dover at 2.30 P.M. From there we motored

to Mt. Ephraim, the home of the Dawes family, where we spent the night and until three Sunday afternoon.

My little godson and namesake is a beautiful and intelligent child of five years. He told me he was an American.

We were in London on Monday. I arranged to see my old friend and comrade, Lieutenant-General Sir Edward Travers-Clarke, who is in charge of the British Empire Exposition, and Ambassador Kellogg, who called on us at the hotel.

As it was the Bank Holiday, the city was quite deserted.

Yesterday we took the ship for home. Mr. and Mrs. Young and Mr. and Mrs. Robinson embarked on the same ship at Cherbourg last evening.

I will not write of the reception of our report over the world. It is but what I expected, for a world necessity, defined in sharp alternatives, marches as an ally by its side.

It marks for a time at least the sunrise of peace in the world once more.

EVANSTON, ILL., July 22, 1924

It occurs to me to add to these notes a memorandum of what occurred at Washington on my

recent trip there so far as it related to reparations. Having been nominated, unexpectedly to myself, for the Vice-Presidency by the Republican party, I left on June 30th for Washington, primarily to consult with President Coolidge about the coming campaign.

Arrived there on the morning of July 1st. Owen D. Young and Dwight Morrow came over from New York to meet me. During July 1st, Young and I had a long conference with Secretary Hughes in the morning on the impending steps to be taken in connection with the installation of the Experts' Plan, particularly in connection with the selection of Dwight Morrow as the Agent for Reparations Payments. After this I saw the President about it, who said he would approve Dwight's selection, and then met Young and Morrow for further discussion.

Notwithstanding Mrs. Dawes and I were guests at the White House, the President excused us for dinner, which we took with Mr. and Mrs. Young and Dwight Morrow at the Shoreham Hotel, where the discussion was continued. At the end of the day the situation may be thus summarized.

English financiers, notably the Governor of the Bank of England, had suggested, with the approval of the Reparation Commission, that J. P. Morgan, the leadership of whose firm was

recognized as necessary to raise one-half of the \$200,000,000 loan to Germany in the United States, suggest the name of the Agent for Reparation Payments. His suggestion was that Dwight Morrow take it, resigning from his firm to do so.

The unique qualifications of Morrow were recognized by the President and Secretary Hughes as well as by Young and myself, and the President and Secretary of State approved of his selection as being essential to the placing of the loan, upon which the inauguration of the plan depended. Young and Morrow left for New York the night of July 1st, with Morrow in doubt but inclined to accept at a sacrifice, but under a deep sense of duty.

So matters stood until the evening of July 2nd. In the evening the President told me he wanted me to attend, after dinner, a conference between himself, Secretary Hughes and Alanson Houghton, our Ambassador to Berlin, who had just arrived and would call at the White House.

The meeting lasted until nearly midnight, when, at the request of the President and Secretary Hughes, I left for New York to see Young and J. P. Morgan to apprise them of the result of it.

Houghton, with great earnestness, pointed out that the appointment of a member of the firm of Morgan & Company would probably enable the Nationalists in Germany to defeat the Republican

Government there by raising the demagogic cry that it was a scheme of the international bankers to crush the life out of Germany instead of helping her. He gave this as the private opinion of the German Government itself. As a result of Houghton's representations it was the consensus of opinion that at New York I should state that the Administration deemed it inadvisable that Dwight be selected.

We agreed that I should try to get Young to agree to serve. The next morning I met Young at New York, and with him Tom Cochrane of Morgan & Company. Afterward, Young, Cochrane, J. P. Morgan and I met at Young's office and threshed it out. Dwight had left for Maine and was not there, though during the day Young got him on the telephone and explained the situation. Young agreed with me, after a talk, that he would take the place only long enough to start the thing going. Morgan, who is a man with that required quickness of decision in time of crisis when immediate action is demanded, approved this. Young, however, insisted that someone be agreed upon, satisfactory to Morgan, who would relieve him after a short time. Nelson Perkins of Boston was tentatively agreed upon. All this I telephoned to Secretary Hughes, who approved. I then left for Chicago on the afternoon train.

What Morgan wanted was to have someone there firm enough to safeguard the interests of the American citizens whom he would induce to loan \$100,000,000 to help establish peace in the world. It was agreed that Young should leave for London on the next Saturday, to be present at the conference of the Premiers of the Allied Nations now assembled at London as I write.

And now at last these notes and my own connection with European matters are ended.

I attach a cable which I received Saturday from my old colleagues in London. This, and my reply, evidence their generosity and my own sincere feelings.

Providence placed our Committee for a little time in a position of power for good or evil to the world which few have ever occupied.

LONDON, July 18, 1924

General Dawes,

Chicago, Illinois.

At a dinner last night given by the Prime Minister to all the delegates and experts the only toasts were to the King proposed by the Prime Minister of England and to General Dawes and the success of his plan proposed by the

Premier of France. We all heartily join in our congratulations and good wishes.

KINDERSLEY YOUNG
PARMENTIER STAMP
PIRELLI

CHICAGO, July 18, 1924

Kindersley, Parmentier, Pirelli, Stamp and Young,
Care, Kellogg, American Ambassador, London.

The cable from you, my colleagues and dear friends of the First Committee of Experts, has touched me. My appointment as Chairman of the Committee alone has been responsible for the general use of my name in connection with a joint work in which each one of you had what I feel was a more important part than my own. But our work must be and will be approved by the nations and the peoples of the world because always personal considerations were sunk in our effort to point out the practical, economic and common-sense basis of future co-operation between the Allies and Germany. It is my prayer and expectation that the important conference now in session will demonstrate that the nations are facing away from the chaos left by war and hatred with the sincere determination to found an enduring and Christian peace based upon common good faith.

CHARLES G. DAWES

APPENDICES

- I. SUGGESTION OF EXPERT INQUIRY BY CHARLES E. HUGHES, SECRETARY OF STATE
- II. VARIOUS LETTERS AND TELEGRAMS RELATIVE TO THE WORK OF THE EXPERT COMMITTEES
- III. OFFICIAL REPORT OF EXPERT COMMITTEES AS SUBMITTED TO THE REPARATION COMMISSION

Appendix I

Extract from Address of Charles E. Hughes, Secretary of State, before the American Historical Association at New Haven, Connecticut, on December 29th, 1922. Recommends appointment of Committee of Experts

Economic Conditions in Europe.—The economic conditions in Europe give us the greatest concern. They have long received the earnest consideration of the administration. It is idle to say that we are not interested in these problems, for we are deeply interested from an economic standpoint, as our credits and markets are involved, and from a humanitarian standpoint, as the heart of the American people goes out to those who are in distress. We cannot dispose of these problems by calling them European, for they are world problems and we cannot escape the injurious consequences of a failure to settle them.

They are, however, European problems in the sense that they cannot be solved without the consent of European Governments. We cannot consent for them. The key to the settlement is in their hands, not in ours.

The crux of the European situation lies in the settlement of reparations. There will be no adjustments of other needs, however pressing, until a definite and accepted basis for the discharge of reparation claims has been fixed. It is futile to attempt to erect any economic structure in Europe until the foundation is laid.

How can the United States help in this matter? We

are not seeking reparations. We are, indeed, asking for the reimbursement of the costs of our army of occupation ; and with good reason, for we have maintained our army in Europe at the request of the Allies and of Germany, and under an agreement that its cost with like army costs should be a first charge upon the amounts paid by Germany. Others have been paid and we have not been paid.

But we are not seeking general reparations. We are bearing our own burden and through our loans a large part of Europe's burden in addition. No demands of ours stand in the way of a proper settlement of the reparations question.

Of course we hold the obligations of European Governments and there has been much discussion abroad and here with respect to them. There has been a persistent attempt ever since the Armistice to link up the debts owing to our Government with reparations or with projects of cancellation. This attempt was resisted in a determined manner under the former administration and under the present administration. The matter is plain enough from our standpoint. The capacity of Germany to pay is not at all affected by any indebtedness of any of the Allies to us. That indebtedness does not diminish Germany's capacity, and its removal would not increase her capacity. For example, if France had been able to finance her part in the war without borrowing at all from us, that is, by taxation and internal loans, the problem of what Germany could pay would be exactly the same. Moreover, so far as the debtors to the United States are concerned, they have unsettled credit balances, and their condition and capacity to pay cannot be properly determined until

the amount that can be realized on these credits for reparations has been determined.

The administration must also consider the difficulty arising from the fact that the question of these obligations which we hold, and what shall be done with them, is not a question within the province of the Executive. Not only may Congress deal with public property of this sort but it has dealt with it. It has created a Commission, and, instead of giving that Commission broad powers such as the administration proposed, which, quite apart from cancellation, might permit a sound discretion to be exercised in accordance with the facts elicited, Congress has placed definite restrictions upon the power of the Commission in providing for the refunding of these debts.

But what is our attitude toward the question of reparations, standing as it does as a distinct question and as one which cannot be settled unless the European Governments concerned are able to agree?

We have no desire to see Germany relieved of her responsibility for the war or of her just obligations to make reparation for the injuries due to her aggression. There is not the slightest desire that France shall lose any part of her just claim. On the other hand, we do not wish to see a prostrate Germany. There can be no economic recuperation in Europe unless Germany recuperates. There will be no permanent peace unless economic satisfactions are enjoyed. There must be hope, and industry must have promise of reward if there is to be prosperity. We should view with disfavor measures which instead of producing reparations would threaten disaster.

Some of our own people have suggested that the

United States should assume the rôle of arbiter. There is one sufficient answer to this suggestion, and that is that we have not been asked to assume the rôle of arbiter. There could be no such arbitrament unless it were invited, and it would be an extraordinary and unprecedented thing for us to ask for such an invitation.

I do not think that we should endeavor to take such a burden of responsibility. We have quite enough to bear without drawing to ourselves all the ill-feeling which would result from disappointed hopes and a settlement which would be viewed as forced upon nations by this country which at the same time is demanding the payment of the debts owing to it.

But the situation does call for a settlement upon its merits. The first condition of a satisfactory settlement is that the question should be taken out of politics. Statesmen have their difficulties, their public opinion, the exigencies which they must face. It is devoutly to be hoped that they will effect a settlement among themselves, and that the coming meeting at Paris will find a solution. But if it does not, what should be done? The alternative of forcible measures to obtain reparations is not an attractive one. No one can foretell the extent of the serious consequences which might ensue from such a course. Apart from political results, I believe that the opinion of experts is that such measures will not produce reparation payments but might tend to destroy the basis of those payments which must be found in economic recuperation.

If, however, statesmen cannot agree and such an alternative is faced, what can be done? Is there not

another way out ? The fundamental condition is that in this critical moment the merits of the question, as an economic one, must alone be regarded. Sentiment, however natural, must be disregarded ; mutual recriminations are of no avail ; reviews of the past, whether accurate or inaccurate, promise nothing ; assertions of blame on the one hand and excuses on the other, come to naught.

There ought to be a way for statesmen to agree upon what Germany can pay, for no matter what claims may be made against her, that is the limit of satisfaction. There ought to be a way to determine that limit and to provide a financial plan by which immediate results can be obtained and the European nations can feel that the foundation has been laid for their mutual and earnest endeavors to bring about the utmost prosperity to which the industry of their people entitles them.

If statesmen cannot agree, and exigencies of public opinion make their course difficult, then there should be called to their aid those who can point the way to a solution.

Why should they not invite men of the highest authority in finance in their respective countries—men of such prestige, experience and honor that their agreement upon the amount to be paid, and upon a financial plan for working out the payments, would be accepted throughout the world as the most authoritative expression obtainable ? Governments need not bind themselves in advance to accept the recommendations, but they can at least make possible such an inquiry with their approval, and free the men who may represent their country in such a commission from any

responsibility to Foreign Offices and from any duty to obey political instructions. In other words, they may invite an answer to this difficult and pressing question from men of such standing and in such circumstances of freedom as will ensure a reply prompted only by knowledge and conscience. I have no doubt that distinguished Americans would be willing to serve in such a commission. If Governments saw fit to reject the recommendation upon which such a body agreed, they would be free to do so, but they would have the advantage of impartial advice and of an enlightened public opinion. Peoples would be informed, the question would be rescued from assertion and counter-assertion and the problem put upon its way to solution.

I do not believe that any general conference would answer the purpose better, much less that any political conference would accomplish a result which Premiers find it impossible to reach. But I do believe that a small group, given proper freedom of action, would be able soon to devise a proper plan. It would be time enough to consider forcible measures after such an opportunity had been exhausted. Such a body would not only be expert but friendly. It would not be bound by special official obligations ; it would have no animus and no duty but to find and state the truth. In a situation which requires an absence of technicality and immunity from interference, I hope that the way may soon be found for a frank discussion and determination of what is essentially an economic problem.

The United States has the most friendly and disinterested purpose in this matter, and wishes to aid in any practicable way. But it is idle to make suggestions which arouse false hopes and are so impracticable that

they cannot bear fruit. On the other hand, there lies open a broad avenue of opportunity if those whose voluntary action is indispensable are willing to take advantage of it. And, once this is done, the avenues of American helpfulness cannot fail to open hopefully.

Appendix II

*From the Reparation Commission to General Charles G.
Daves, Chicago, Illinois*

PARIS, 21ST December 1923

The Reparation Commission, at a meeting held on the 30th ultimo, unanimously adopted the following decision :

“ In order to consider, in accordance with the provisions of Article 234 of the Treaty of Versailles, the resources and capacity of Germany, and after giving her representatives a just opportunity to be heard, the Reparation Commission decides to create two Committees of Experts belonging to the Allied and Associated countries.

“ One of these Committees would be entrusted with considering the means of balancing the budget and the measures to be taken to stabilize currency.

“ The other would consider the means of estimating the amount of exported capital and of bringing it back into Germany.”

The Commission has the honor to invite you to participate in the work of the first committee above mentioned, and accept the Chairmanship of it.

LOUIS BARTHOU
JOHN BRADBURY

From President Coolidge

THE WHITE HOUSE,
WASHINGTON, April 21, 1924

My dear General,

You will be at home no doubt when this reaches you, but I wanted to put on paper my deep appreciation of the character of your services. Had you been representing the Government you would have been hampered, and no doubt your proposed action would have become the object of political controversy here. I have said that you and your associates represented not the Government, but the American mind. The success of your work now seems assured, but whatever happens in relation to its acceptance, it is of a character that cannot help but be most helpful in composing European differences. Perhaps I shall have a chance to see you on your arrival in this country.

With kindest regards, I am,

Very truly yours,

CALVIN COOLIDGE

Brig.-General Charles G. Dawes,
Chicago, Illinois

Stresemann's Contemporaneous Notes (Vol. I, "Gustav Stresemann : His Diaries, Letters, and Papers")

June 4th, 1924

The American Ambassador came to see me to-day and introduced Mr. Logan, who wanted to discuss the situation with me confidentially. In the course of conversation, Mr. Houghton mentioned that Mr. Logan

would probably be appointed Commissioner-General for the fulfilment of the Experts' Report ; this Mr. Logan disputed, but in such a way that made it clear that he counted on this appointment.

In the course of the interview, Mr. Logan remarked that Herriot (leader of the victorious Left block at the French elections and future Premier) did not know that he was in Berlin and had seen the Chancellor and myself. He asked that this interview might be treated as entirely confidential. He knew Herriot very well, and had had repeated opportunities of talking to him. Within a short time Herriot and MacDonald would meet, and he assumed that an agreement would then be reached as to the settlement of the immediate issues in foreign politics. He was especially anxious to hear my views as to how Herriot could lighten the task of the new Government that had now fortunately been constituted.

Upon this I took the opportunity to acquaint Mr. Logan with our political situation. The financial and economic provisions of the Experts' Report would in my opinion gain a majority in the Reichstag, as the German Nationals would hardly dare to reject the Report without running their heads against important and extensive industrial and agricultural interests, by which they are mainly supported. But it would be impossible, in spite of the general realization of the necessity of accepting the economic and financial conditions, to get the Report through, unless the questions of honour were settled. There were in Germany perhaps 500 persons who had read the Report. But millions of Germans knew that prisoners were languishing in French gaols, and that tens of thousands were

prevented from returning to their homes. Unless the Ruhr were freed from military occupation, the German people could not be satisfied with the new conditions. I myself had conducted the election with the appeal : Through sacrifice and labour to freedom. But as long as this freedom was not visible, there would be no satisfying public opinion. It would be best if the prisoners could be freed before the acceptance of the Experts' Report. Similarly, the exiles should be given the option of returning to their homes. In connection with the liberation of the Ruhr area I understood that Herriot desired to wait until the necessary laws regarding railways, banks, etc., had been passed in Germany and the acceptance of the Experts' Report had been secured. As soon as this was secured and France then realized that she could reckon on her share of the payments, the military occupation of the territory must be brought to an end, a proceeding which Herriot could defend by urging that the productivity of Germany was thereby weakened. In any case the military occupation must cease before the end of the year.

Mr. Logan expressed his entire agreement, and had already stated his views regarding the question of evacuation, which more or less coincided with my own, but I thought I could detect Herriot's own views in what he said.

With regard to the prisoners, he distinguished between two categories : political prisoners and deliberate rioters. Upon this I said that my political difficulties would in no way be relieved if 1500 prisoners were released and 50 left in gaol. I could not object if the Opposition refused to regard the rioters as common

criminals. August Bebel himself, upon the occasion of the Boxer Rising, had emphatically refused to regard as criminals the Chinese who were defending their country against a European invasion. Not only in Social Democratic quarters would such a settlement give great satisfaction ; in the case of criminals who had transgressed against German laws, they could be transferred to German gaols and judged by German courts.

I recalled the shooting of Schlageter, which had actually rekindled the Nationalistic movement, which was the same grave political error that Germany had committed in having Miss Cavell shot.

Houghton raised no objections to my remarks ; and they seemed to make some impression on Logan also.

Logan then asked me what were our anxieties regarding the railways ; it seemed to him as though the Ministry of Finance was anxious, from considerations involved in the payment of wages, that they should not be entirely withdrawn from Government control. I told him that I was not exactly informed on these matters. But in any case an understanding must be reached regarding the payment of railway officials and of other officials of the Reich connected with the administration of the railways. Moreover, the Government had an interest in being adequately represented by substantial persons on the Boards of the Banks. General objections had been raised against the scale of German tariff-rates. I regarded these as secured in accordance with the text of the Report, but I took the opportunity of pointing out the importance of this question for the German Reich.

The question of the Micum agreements, to which

he briefly referred, I had not further mentioned, on the assumption that they would be paid out of the loan, as, from Sthamer's report on the matter, nothing was to be expected from the Allies. Logan told me in conclusion that he had met Morgan in Paris, and that Morgan had asked him on what conditions he should insist. He had advised Morgan to say that he had not yet read the Report. This he had done to deprive Poincaré of the pretext of saying that France had been confronted by an ultimatum from the banks. For the rest, he was firmly convinced that the question of the military evacuation of the Ruhr would be brought up at the loan negotiations. The Americans could not be expected to subscribe to the loan if the military occupation of the Ruhr continued.

The interview lasted about an hour and a quarter and was conducted by Houghton and Logan with extraordinary frankness. Logan gave me the impression of sincerity, and is certainly more of a business man than a diplomat and a politician. One has the feeling that a good relation could be established between Schacht and Logan, especially as their characters are well suited to each other. At the conclusion of our talk Logan expressed the hope that the Report would be carried out in a spirit of confidence. Houghton further asked whether it were not possible to incorporate a sentence in my speech or in that of the Chancellor that a new era was approaching, but that it could only bring peace to Germany if it were supported by a renewed confidence of the world in Germany. The conditions for such confidence must be created by Germany herself. I said that I would gladly give expression to this idea in my speech.

From James A. Logan, Jr.

PERSONAL

18 RUE DE TILSITT,
PARIS, June 12, 1924

Dear General Dawes,

You are probably interested in the present situation of the Report. Due to the political situation here we have not been able to make very fast progress. The organizations committees are all set up. Schacht and Kindersley on the Bank Committee have about finished. The Railway Committee's work is going along splendidly. No fifth member has been appointed and I doubt if one will be required, though there is a chance that some minor divergence of views of detail as between the German and Allies representatives may have to be arbitrated, in which case a fifth member will be brought in for this specific purpose. The Industrial Debenture Committee is not making very rapid progress. It is a great pity that Pirelli would not serve on this Committee. No fifth member has yet been appointed, but in my judgment, one will have to be appointed shortly to give this work some "guts", as neither the French nor Italian member has a poker heated to the necessary temperature. I was informally approached with a view to suggesting a fifth member. Albert Rathbone, who was over in Europe and who preceded Boyden in my present job, had all the necessary background and punch for the job. I informally approached him, but for personal reasons he felt that he could not touch it. There was no one else here immediately available, that I would care to recommend, so for the present I have let the matter drop.

I enclose copy of a "personal and confidential letter" which I have just sent to Barthou concerning a recent visit I made to Berlin. Somewhat similar letters, drafted in an endeavor to appeal to the particular psychology of the British, Italians and Belgians, were sent to Bradbury, Salvago Raggi and Delacroix. I feel that they portray fairly accurately the political phase of the Experts' Report situation as it exists to-day. I also intend seeing Herriot next week, who I know quite well, and have a little heart-to-heart talk with him.

Everything is going along finely and, as always, I remain an enthusiastic optimist on the success of your Report. I feel, however, that it will not be put into effect at quite the early date we originally contemplated, and that a real and decided success is largely dependent on the conciliatory attitude of the Allies towards Germany. (In this connection we see the enclosed Barthou letter.) Now, my guess as to future developments and dates would be about the following :

(1) Herriot will be installed as Prime Minister of France June 16th.

(2) About July 1st, perhaps even earlier, Herriot will go to London for a talk with MacDonald. This meeting, I am advised, is practically arranged, and it is an all-important step in clearing the atmosphere by the adjustment of the political issues.

(3) The MacDonald-Herriot meeting, if successful (which I believe will be the case), may perhaps be succeeded by a full-dress meeting somewhere of MacDonald, Herriot, Mussolini, Theunis, and possibly Stresemann, where some agreement or pact will be

formally adopted. This full-dress meeting can perhaps be avoided by reaching the same end through diplomatic channels or by the possible appointment of substitutes for the Prime Ministers.

(4) By this time, or let us say roughly July 15th, the Reparation Commission will receive the reports of the organization committees and the German laws and decrees.

(5) About August 1st the Commission should have disposed of the organization committees' reports and the German laws and decrees.

(6) About August 15th the laws and decrees will have been enacted by the Reichstag.

(7) By September 1st the systems of control, the bank, industrial and railway bonds business should be settled, and the whole plan put into operation.

The foregoing is my best forecast of probable happenings, and is based on the inclusion of all the most optimistic factors. The M.I.C.U.M. deliveries, as well as the status of the foreign loan, during the interval, will occasion difficulties. I hope, however, these can all be met. However, from what I gather as to the present "feel" of the American markets on the foreign loan question, there is some cause for concern.

I also anticipate that some time in the course of the foregoing events there will be a meeting of the finance ministers to consider the question of the division between the Allies, and other allotments, of the annual German payments. This meeting will not of course concern the Report itself, nor the Germans. However, it promises to be a fairly acrimonious party and one in which our claims position may have to come to the

front. Confidentially, I am pleased that Secretary Hughes will in all probability be in Europe at this time, and therefore immediately available for giving instructions as to the attitude to be taken.

With renewed expressions of my keen appreciation for your many personal kindnesses to me, and with my affectionate regards to you and yours, not forgetting my good friend Mr. Rufus Dawes, I remain,

Faithfully yours,

JAMES A. LOGAN, JR.

General Charles G. Dawes,
Chicago, Illinois,
États-Unis d'Amérique

James A. Logan, Jr.

18 RUE DE TILSITT,
PARIS, June 11, 1924

Dear Mr. President [Barthou, President of Reparation Commission],

During a recent visit to Berlin I was made aware of the views of some of the leading German officials with respect to the adoption of the Experts' Plan and upon certain collateral questions which, it occurs to me, will be of interest to you. They will perhaps be of more interest because of the fact that these officials expressed themselves as being strong partisans of the adoption of the Experts' Plan, and appeared sincere in their advocacy of the Plan as best for all concerned. I did not overlook that their advocacy of the Plan was perhaps based on the obvious conclusion that the Plan itself had the moral support of the world at large and, in addition, that it constituted the maximum

Allied concession on reparations that Germany could obtain. They discussed the likelihood and the method of its adoption by Germany, and indicated certain steps which, in their opinion, would greatly contribute to—if not almost guarantee—the early acceptance of the Plan by the German legislative body. The officials with whom I talked were Marx, Stresemann, Luther, and Schacht. Our conversations were quite informal, therefore privileged and in consequence confidential.

In the first place it was their view that the Plan will ultimately receive the necessary two-thirds vote of the Reichstag, and that if the present Reichstag failed to give such a vote, then President Ebert would dissolve it and call for new elections. But it was felt that the new elections, with the consequent delay and uncertainty, could be avoided if the Allies were themselves to initiate some steps which would strengthen the hands of that section of German opinion which desires the immediate approval of the Plan, and which would take away the present ammunition and defeat the present tactics with which the Nationalists are combating, and will continue to combat, the Plan's adoption. The present German Government, I feel, fully realize, in the present state of Allied public opinion, the futility of Germany formally attaching "Conditions" to the acceptance of the Plan. I don't mean to intimate by this that the German Government will not attempt to manœuvre for "slight ameliorations of detail provisions". However, such manœuvring will be on minor detail matter, can readily be blocked, and will not be directed against the real substance of the Report. On the other hand,

the opposition, with the Nationalists, are in a position, when the laws necessary to putting the Plan into effect go before the Reichstag, to seriously jeopardize the success of the Plan by directing interpellations against the Government on questions somewhat extraneous to the Report, but which, in effect, would destroy the immediate, if not ultimate, success of the Plan. The opposition manoeuvre would therefore be directed to attaching "Conditions", with the object of thus defeating the Plan, whereas the present Government wants the Plan adopted by the Reichstag without "Conditions".

It was thought, for example, that it would be particularly helpful if the Allies were themselves to announce unequivocally that they accepted the Plan as a definite adjustment of the reparations problem, contingent, of course, upon Germany doing likewise. It was pointed out that the Allies had not yet unanimously taken a definite stand and, in particular, it was felt that the reply of M. Poincaré to the Reparation Commission represented no definite commitment on the part of France, but rather postponed a decision awaiting further developments. Certain recent published utterances and letters of M. Herriot made an excellent impression and, in my judgment, had much to do with the prevention of the Pan-Germanist element from participating in the present Government. However, this latter German element points to the fact that M. Herriot's views to date are simply those of a French citizen, and that from the official point of view, the position of the French Government remains based on M. Poincaré's formal letter to the Reparation Commission. Inasmuch as France is the

principal reparations creditor, the Germans look with great interest and anxiety upon the attitude of your country, and the fact that it has not yet been made officially precise is affording, according to my German informants, considerable strength to the opposition.

In continuing their expression of views as to the steps which might be taken by the Allies which would facilitate—if not assure—the adoption of the Experts' Plan, the Germans claim that certain aspects of the aftermath of the Ruhr occupation will play a large part in German political thought and afford the strongest support for the opposition. It was intimated that the foundation of that opposition could be largely destroyed were the Allies to indicate that (contingent upon the Plan's adoption) certain measures of amelioration would be forthwith taken with respect to these causes of German discontent. It was pointed out that there were over 600 prisoners confined because of offences in the occupied area, which offences, from the German viewpoint, were deemed political, and that there were approximately 140,000 persons expelled from the occupied area for reasons which, again from the German viewpoint, were deemed primarily political. According to my informants, these issues, in German public opinion, were of paramount importance, and the interpellations in the Reichstag on this subject without some previous conciliatory Allied assurance concerning an adjustment of these points would place the German Government in a most critical position. On the other hand, if the Allies could, prior to the time of the presentation of the laws to the Reichstag, give some assurance for some degree of amnesty for these prisoners

and allow the re-entry of expelled persons in the interest of restoring the economic unity of the Reich—if and when Germany adopted the Plan—the German officials felt that it would completely undermine the opposition's position. It was suggested that under the modified régime contemplated by the Experts' Plan for the economic restoration and independence of the occupied areas, a step of this sort would enhance the productivity of the Reich, and in no way injure the Allies. It was suggested that strong support would be given the German Government virtually assuring the passage of the laws if the Allies were to predicate these acts of grace upon an unequivocal acceptance of the Experts' Reports before the lapse of a certain number of weeks.

The Germans also emphasized the desirability, from the German viewpoint, of some form of announcement concerning the military evacuation of the Ruhr at some fixed and certain date upon certain fixed and clear conditions. M. Herriot's recent letter to M. Blum was taken as most reassuring in this particular. However, the opposition again alleged that this correspondence was simply the exchange of letters between the chiefs of two French political parties which in itself did not necessarily commit the French Government.

Finally, these Germans said that the promise of the restoration of the Rhineland Agreement at a given date (also contingent upon the German Government's faithful adoption of the Plan) was a measure which would stimulate the Reichstag's acceptance of the Plan.

What I gathered from the conversations, and what

I again feel should be emphasized, was not that these Germans were putting the suggestions above outlined as "Conditions" precedent to their acceptance, but only that they felt that they needed the support of the Allies in getting the Plan adopted by the German legislative body, and that measures on the general lines suggested (or so much in this direction as appeared practical) would be of incalculable benefit in the adoption of the Plan, and its faithful execution. Their general position was that in so far as there was indefiniteness on the part of the Allies with respect to their attitude and action on the Plan, it was correspondingly difficult to secure definiteness from Germany. The Allies, they thought, could readily take definite stands, contingent upon Germany's full approval of the Plan, perhaps echeloning, at reasonably early dates, their concessions and acts of grace after the Plan was accepted and when it was being put into execution. They thought, too, that if these suggestions emanated officially from Germany that they might be considered by Allied opinion as evidences of evasion, or be regarded as attempts to impose "Conditions". In other words, I gathered that the German Government position before the Reichstag, so far as the Plan is concerned, would be almost unassailable if they could take away the fire of the opposition by replying that the acceptance of the Plan would forthwith, or shortly thereafter, eliminate the conditions upon which the opposition, or in other words the Pan-German element, bases its arguments for opposing the Plan.

The main difficulties of the German position are those indicated above. I may say in passing that

considerable reference was made in the conversations to the financial and economic difficulties of the continuation of the M.I.C.U.M. agreements.

In connection with the views expressed to me by the Germans, I naturally maintained an attitude of non-committal reserve on all the points mentioned, and I avoided being drawn into discussion of or any expressions of opinion upon the matters referred to. My endeavor in this personal and unofficial letter to you is simply to present to you a purely objective picture of what I gathered to be the opinions and views of the present German Government after listening to its leaders in Berlin.

With warm personal regards, believe me,

Very sincerely yours,

JAMES A. LOGAN, JR.

JAL wep

Monsieur Louis Barthou,
President of the Reparation Commission,
Hotel Astoria, Paris

*Cables sent and received at time of London Conference of
Representatives of Governments ratifying the Experts' Plan*

General Dawes,
Evanston, Illinois

LONDON,
August 16, 1924

In the name of the conference over which I have had the honour to preside and in my own I beg to tender our warm thanks for your telegram of congratulations at the success of the conference. We are deeply sensible of and grateful for your own great part in assisting to bring matters to this happy issue.

J. RAMSAY MACDONALD

General Charles G. Dawes,
Evanston, Illinois

WASHINGTON, D.C.,
August 18, 1924

I congratulate you heartily upon the agreement that has been reached to make effective the Dawes Plan. At last the basis has been laid for economic recovery in Europe and your service to this end can never be forgotten.

CHARLES E. HUGHES

General Charles G. Dawes,
Evanston, Illinois

LONDON,
August 17, 1924

REP 17. Program agreed upon in New York for selection Reparation Agent apparently not acceptable to Norman and Lamont. They desire permanent appointee named now and have made suggestion which you can get from Washington by telephone. I share their view as to desirability permanent appointment being made now. Therefore unless you feel that I am violating my personal commitment to you, I intend to decline even temporary appointment and sail for home on Wednesday. Please let me have quick answer.

OWEN D. YOUNG

Owen D. Young,
Care American Embassy,
London, England

EVANSTON, ILLINOIS,
August 17, 1924

I have had no opportunity to telephone to Washington, but no word from there would lessen my

belief that the one man most essential to the proper launching of the machinery provided by the Experts' Plan and establishing its proper relationship to the Allied Governments is yourself.

The consensus of opinion upon this, shared by our Government, by the members of our Expert Committee and by informed Allied officials, in my judgment, is too significant of the necessities of the situation to justify you in declining temporary appointment. I beg of you not to decline, but to see the thing through, for the sake of everybody, including your colleagues of the First Committee of Experts, whose opinion I undertake to say is unanimous.

CHARLES G. DAWES

DEPARTMENT OF STATE,
WASHINGTON, August 14, 1924

My dear General,

The department has just received a telegram from Ambassador Kellogg, dated August 13, 1924, containing the following information :

“ Mr. Owen Young has requested that the Department be notified that on August 11, Montagu Norman and Lamont advised him that neither would participate in loan unless permanent Agent-General was named now. They said that they believed Young should take the position if he were willing to serve for at least three years, but that some other appointment must be made if not. Mr. Young stated in reply that while willing to fulfil his promise

made in Washington, he could not remain for three years. Norman and Lamont, after further consultation, advised Mr. Young that they had agreed upon Mr. Norman Davis and that they had telephoned to learn whether he would accept. The position of Mr. Young is that he never has sought the appointment, but in view of being committed to Washington and to General Dawes to set up the plan, he cannot change his position without the consent of Washington and he feels obliged to report the situation in view of the foregoing."

Mr. Young has requested that you be advised of the foregoing.

In this telegram Ambassador Kellogg also reports that Mr. Logan points out that the German Government, which must negotiate the loan, has not as yet approached any particular group of American bankers, and that the actual question of the appointment of an Agent-General will come up after the conclusion of the conference before the Reparation Commission at Paris.

Sincerely yours,

CHARLES E. HUGHES

Owen D. Young,
Care American Embassy,
London, England

EVANSTON, ILLINOIS,
August 18, 1924

Finally got Washington on long distance telephone. If the new suggestion comes from the Allies and Germany in a united way, it is satisfactory to Washington. There is no feeling that you are violating a

personal commitment in declining. As for myself personally, I stand by my cable of yesterday.

CHARLES G. DAWES

General Charles G. Dawes,
Evanston, Illinois

LONDON,
August 19, 1924

REP. 36. I am staying on the job pending appointment permanent agent stop There will be a great deal of machinery to set up and many arrangements to be made with all the different governments. Cannot Rufus come at once and help stop Harry Robinson is leaving in the next day or two for the same purpose. Believe Harry and Rufus and I can do this preliminary job if we get at it quickly.

OWEN D. YOUNG

Owen D. Young,
Care American Embassy,
London, England

EVANSTON, ILLINOIS,
August 16, 1924

Affectionate regards and sincere congratulations to the members of First Committee of Experts who are with you. The road they have travelled has been hard, but no easy one ever led to the heights.

CHARLES G. DAWES

General Charles G. Dawes,
Evanston, Illinois

LONDON,
August 17, 1924

REP. 15. Wish you might have attended closing meeting conference last night. Only telegrams of

congratulations which were read were from the King of England and from you. All of your associates deeply appreciate your message.

OWEN D. YOUNG

Charles G. Dawes,
Evanston, Illinois

LONDON,
August 17, 1924

Many thanks for congratulations. Hope that future developments may justify successful outcome of conference.

CHANCELLOR MARX

General Charles Dawes,
Chicago, Illinois

BRUSSELS,
August 18, 1924

Thanks for your kind congratulations stop. The success of the London conference is the success of the Dawes scheme.

THEUNIS

Honorable Frank B. Kellogg,
American Ambassador,
London, England

EVANSTON, ILLINOIS,
August 16, 1924

May I offer my sincere congratulations upon the outcome of the conference, in which your important part is recognized by all in this country and everywhere.

CHARLES G. DAWES

LONDON,
August 18, 1924

My dear Mr. Dawes,

I thank you sincerely for your congratulatory telegram upon the London Conference. I do not deserve all the credit the newspapers have apparently given me. I of course did everything I could, and the presence of the United States in rather an independent position has undoubtedly had a good deal of effect, but after all you laid the foundation for the whole work and the task was not as difficult here as it was in the beginning. I was intensely anxious that we should succeed, and I think you will find that the London Protocol successfully puts the Dawes Report into force. I suppose you are very busy with your campaign. I hope you have every good luck. I think this successful outcome ought to aid you.

Most sincerely yours,

FRANK B. KELLOGG

Honorable Charles G. Dawes,
Evanston, Illinois

(RADIOGRAM)

Crocker,
Genetric, N.Y.

PARIS,
August 26, 1924

Please communicate following message confidentially to Charles G. Dawes. Barthou, Delacroix and Salvago Raggi have indicated their wishes to invite James A. Logan to be American citizen sitting on Reparation Commission as contemplated by London Agreement. James A. Logan would then resign as

unofficial observer stop. Difficult for him remain unofficial observer if another American were sitting on Reparation Commission stop. Invitation worthy recognition of his high standing with his colleagues and his adjunct work in London. English have not as yet expressed views stop. As I cannot communicate freely with Washington, thought that you might wish to say favorable word for this program.

YOUNG

Owen D. Young,
18 rue de Tilsitt,
Paris, France

EVANSTON, ILLINOIS,
August 28, 1924

Cable received. Have telephoned Secretary of State, Washington. Matter will be taken up when President returns to Washington within few days.

CHARLES G. DAWES

General Dawes,
Evanston, Illinois

PARIS,
Oct. 14, 1924

Reparation Commission today gave final approval to all papers required for loan and announced Dawes Plan effective and in operation stop. Referring to your garlands and garbage I am thankful that you are receiving only garlands. Rufus doing extraordinary job.

YOUNG

Owen D. Young,
18 rue de Tilsitt,
Paris, France

October 16, 1924

Sincere congratulations to you upon your great success. Am delighted at what you say about Rufus. Relative your remarks about garlands and garbage, my steady diet in this campaign is a mixture of the two.

CHARLES G. DAWES

Report by Rufus C. Dawes

INTERVIEW WITH CHANCELLOR MARX

Berlin—October 22nd, 1924. Called at Chancellory by invitation at 11.30. Competent interpreter.

The Chancellor asked what was the American public opinion towards the Plan of the Experts.

I replied that he was well aware of the political restrictions upon the participation of our Government in the general reconstruction work; that among great numbers of our people, both those approving and those condemning the position of our Government, there was disappointment that our influence could not be more directly effective; that the Plan was considered by our General Public as the first effective American effort to improve conditions. Being considered in effect an American plan it was favorably received—and further that Bankers and Economists had endorsed it as practically and scientifically sound. Therefore, it had very general support.

The Chancellor was glad to feel that this was true, and especially glad to learn that it was approved by

bankers and business men since their attitude would have so much to do with the future success of the Plan.

I said the subscription in twelve minutes by the investing public for five times the allotted 110 million dollars of bonds was proof both that the bankers endorsed and the investing public approved the Plan; and further that it was an important endorsement by the American public of the good faith of the German Government in accepting and enforcing the conditions of the Agreement.

The Chancellor said that more than anything else he desired to establish the reputation of his Government for good faith; that in the past it had been a disappointment and sometimes a surprise that this attitude of good faith seemed to be questioned and doubted by the American people. He declared that it had been the constant effort of the German Government to meet its obligations, but that the demands had been of such a nature and made under such circumstances as at times to subject his Government in his opinion to unfair criticism.

I remarked that it was one of the virtues of the Plan that it put an end to conflicting and overlapping demands, and made clear to all the world the limit and conditions of demands for exterior payments.

The Chancellor stated that the work of the Committee was a great act of constructive statesmanship, that it provided the basis for better understanding, and the starting point for new and more reasonable readjustments; that experience might demonstrate the necessity of alterations in the Plan, but that co-operation in carrying out its terms would be likely

to develop mutual confidence whereby such changes would be facilitated.

I replied that, considering the short time within which the Plan was formulated and adopted, the Committee itself, in my judgment, considered that its work was more a declaration of principles to become the basis of a new understanding than as a charter for detailed organization ; and that I believed the members of the Committee themselves were surprised that the Plan seemed to have received the endorsement of the public of all countries both as to the principles it embodied and as to the details of organization proposed ; and that the London Conference had made it sacrosanct and had enacted it into international law ; on which account I feared changes might become very difficult and hoped the necessity for them might not develop.

He replied that he had favored the adoption of the Plan in its entirety as being the only practical decision possible ; that the previous experiences of the German people had left them also suspicious and uncertain, and that the question of changing any portion of the Plan could certainly not have been considered then and could not in the future be considered until after it was certain that, as he, being an optimist, anticipated would be the case, there should be established a much better mutual understanding. In the meantime, by some exertion on his part, the Plan was accepted and in operation, and whatever changes might occur in the German Government, would still be accepted and enforced in perfect good faith. He hoped that the Office of the General Agent was receiving all proper assistance from his Government.

I told him that through Dr. Kastl there had been established very satisfactory relations and that I had read with satisfaction the words of praise he had published about Dr. Schacht, since the Office of the Agent-General also had been helped by his co-operation.

The Chancellor replied that he had assumed a political burden in appointing Dr. Schacht to the important office he was now relinquishing ; that he did so because he was convinced of the soundness of his plans and of his personal abilities ; and that he felt his activities had been of the greater service to Germany. He repeated very cordially his invitation to call upon him whenever he could be of any service.

RUFUS C. DAWES

Berlin, October 22nd, 1924

Report by Rufus C. Dawes

BERLIN,
October 23, 1924

Dear Charley,

About a week ago I accepted an invitation from a gentleman of Jewish persuasion to luncheon on Friday, the 17th. When I saw him the next day he stated that among other guests at this luncheon would be President Ebert and Chancellor Marx. When we gathered for luncheon there were about eighteen in the party. There were present in addition to Ebert and Marx, Secretary of War Gessler, Ex-Chancellor Wirth; the twin brothers Counts Brockdorff-Rantzau, one who formally declined to sign the Versailles Treaty as being beyond the power of the

German Government to fulfil, and the other now Ambassador at Moscow ; Mr. Albert, the man who lost his portfolio in New York and a very able and interesting person, and Professor Nernst, the head of the Physics Department of the University, for whom the Nernst lamp was named. I was seated between the Chancellor and Brockdorff-Rantzau, neither of whom could speak English. After the luncheon I had a chance to talk with the Chancellor through one of the English-speaking members of the party as an interpreter. The Chancellor wanted to have his regards carried to you and to congratulate you on bearing a name that has become distinguished throughout all the world for high accomplishment.

I told him you yourself would attribute great influence to him in accomplishing such benefits as would be brought to the world through the adoption of the Experts' Plan. I reminded him of the words that he used in greeting the Committee here in Berlin, "that this question ought to be approached in the spirit of Christian forbearance", and told him that I believed those words had a profound effect. He replied with some emotion that he felt much pleased to have those words recalled and to know that they had been noticed—that he had uttered them in all sincerity as a man, as a statesman and as a good Catholic. On leaving he said that he hoped to meet me again, and on the following day I received an invitation to call at the Chancellory on Wednesday morning and to take luncheon there at 1.30.

I felt that I ought to write down as much as I could remember of my interview with him and send to Mr. Young. I am therefore enclosing to you a copy

of what I sent to Mr. Young. He spoke at some length of political difficulties created by the numerous parties in Germany, but this portion of his talk was so imperfectly grasped by me that I did not feel safe in attempting to quote it. He said that when you called upon him just before leaving Berlin he felt that the interview was a very important one and had looked forward to it with some anxiety, but after a few minutes' talk with you he felt very reassured and much pleased at the exchange of ideas. However, he said he hoped I would not be offended when he told me that he felt terribly shocked and alarmed when you handed him a written statement and told him that there was written what he ought to say about this interview, but, he said, when he read the statement he realized that you were a very wise man and felt very happy to have received such a practical suggestion.

I told him that you yourself had some difficulties at that time, not the least of which was that, through no presumption on your part, your name was given a great prominence. I told him that you realized that however sound the Plan might be, and in spite of the fact that the application of it would save Europe from great impending disaster, nevertheless the Plan was a settlement of War difficulties and was written under the control of the Versailles Treaty; that the adjustment of War difficulties was always difficult; that international obligations were always disagreeable; that hardships would have to be endured, and that you realized perfectly well that you would receive undeserved criticism just as in the beginning you had received unmerited praise. At this point he

became very emphatic in his tribute to the men who had created the Plan, and to you in particular, and it was clear that he had received a very firm impression as to your good sense and personal influence.

Mr. Young will be here next week with Mr. Gilbert. I can foresee that Gilbert will have some difficulties, but as compared to Young's task his work will be very easy. As a matter of fact it will be light, but not without its great responsibilities.

Yours affectionately,

R. C. D.

General Dawes,
Chicago, U.S.A.

PARIS,
Nov. 14, 1924

NR 202. La Commission se rappelant vos grands services vous envoie a l'unanimité ses souhaits les meilleurs auxquels j'associe félicitations et amitiés personnelles stop

BARTHOU

Monsieur Barthou
Comité de Réparations,
Hôtel Astoria,
Paris, France

EVANSTON, ILLINOIS
November 15, 1924

I thank you for your remembrance. My association with the Reparation Commission through the Expert Committee which it appointed was a great privilege and honor. I wish you would accept for yourself and extend to your colleagues my grateful appreciation of the message sent.

CHARLES G. DAWES

*Special Cable to "The New York Times",
By Edwin L. James, 1929*

Paris, February 11.—The economic and financial experts of seven nations, gathered in Paris to prepare a final settlement of German reparation payments to the former Allies and also to indicate a way to a final settlement of all international indebtedness left by the World War, held their first meeting this afternoon in the Hotel Georges V.

The first act of the fourteen distinguished gentlemen was to nominate formally as Chairman Owen D. Young, the first American delegate, who played such a prominent part in the elaboration four years ago of the Dawes Plan, to complete which will be an important part of the work of the present Committee.

This tribute paid to him, the second act of the committee taken on the initiative of Governor Emile Moreau, of the Bank of France, and seconded by Doctor Hjalmar Schacht, head of the Reichsbank, was to send the following telegram to Vice-President Dawes, who acted as Chairman for the first Experts' Committee :

"The second Committee of Experts at the inception of its first meeting in Paris addresses to General Dawes the homage of its respect and the expression of its hope of accomplishing work as useful as that which was realized under the chairmanship of General Dawes in 1924."

February 9, 1929

*Following Cable received from the Second Expert Committee
and Doctor Schacht :*

All the old friends, Young, Pirelli, Francqui, Parmentier, Stamp, Schacht send affectionate greetings and their first thoughts on reunion were of their old leader, the General.

The following Reply was sent to Mr. Young :

Please extend my affectionate regards to my old associates of the First Committee of Experts and Doctor Schacht and an expression of my confidence in the successful outcome of their new effort for world betterment.

CHARLES G. DAWES

Appendix III

REPORT OF COMMITTEES OF EXPERTS TO REPARATION COMMISSION

RESOLUTIONS ADOPTED BY THE REPARATION COMMISSION

ON NOVEMBER 30TH, 1923

In order to consider, in accordance with the provisions of article 234 of the Treaty of Versailles, the resources and capacity of Germany, and after giving her representatives a just opportunity to be heard, the Reparation Commission decides to create two committees of experts belonging to the allied and associated countries.

One of these committees would be entrusted with considering the means of balancing the budget and the measures to be taken to stabilize the currency.

The other would consider the means of estimating the amount of exported capital and of bringing it back to Germany.

MEMBERSHIP OF THE COMMITTEES

First Committee

UNITED STATES :

Charles G. Dawes, Chairman.

Owen D. Young.

GREAT BRITAIN :

Sir Robert Molesworth Kindersley.
Sir Josiah Charles Stamp.

FRANCE :

Jean Parmentier.
Edgard Allix.

ITALY :

Alberto Pirelli.
Federico Flora.

BELGIUM :

Emile Francqui.
Baron Maurice Houtart.

Second Committee

UNITED STATES :

Henry M. Robinson

GREAT BRITAIN :

Reginald McKenna, Chairman.

FRANCE :

André Laurent-Atthalin.

ITALY :

Mario Alberti.

BELGIUM :

Albert-Edouard Janssen.

REPORT OF THE FIRST COMMITTEE
OF EXPERTSLETTER FROM THE CHAIRMAN TO THE
REPARATION COMMISSION

April 9, 1924

Your Committee of Experts has unanimously adopted a report upon the means of balancing the budget of Germany and the measures to be taken to stabilize its currency, which I now have the honor to submit.

Deeply impressed by a sense of its responsibility to your commission and to the universal conscience, the committee bases its plan upon those principles of justice, fairness and mutual interest, in the supremacy of which not only the creditors of Germany and Germany herself, but the world, has a vital and enduring concern.

With these principles fixed and accepted in that common good faith which is the foundation of all business and the best safeguard for universal peace, the recommendations of the committee must be considered not as inflicting penalties, but as suggesting means for assisting the economic recovery of all the European peoples, and the entry upon a new period of happiness and prosperity unmenaced by war.

Since, as a result of the war, the creditors of Germany are paying taxes to the limit of their capacity, so also must Germany pay taxes from year to year to the limit of her capacity. This is in accord with that just and underlying principle of the Treaty of Versailles, reaffirmed by Germany in her note of May

29, 1919, that the German scheme of taxation must be "fully as heavy proportionately as that of any of the powers represented on the commission". More than this limit could not be expected, and less than this would relieve Germany from the common hardship and give her an unfair advantage in the industrial competition of the future. This principle the plan embodies.

The plan has been made to include flexible adjustments which, from the very beginning, tend to produce the maximum of contributions consistent with the continued and increasing productivity of Germany. The conservative estimates of payments to be made in the near future are dictated by business prudence in outlining the basis of a loan, and should not destroy perspective as to the effects to be registered in the aggregate of eventual payments, which will annually increase. With normal economic conditions and productivity restored in Germany, most hopeful estimates of amounts eventually receivable will be found to be justified. Without such restoration, such payments as can be obtained will be of little value in meeting the urgent needs of creditor nations.

To insure the permanence of a new economic peace between the Allied Governments and Germany, which involves the economic readjustments presented by the plan, there are provided the counterparts of those usual economic precautions against default recognized as essential in all business relations involving expressed obligations. The existence of safeguards in no way hampers or embarrasses the carrying-out of ordinary business contracts. The thorough effectiveness of these safeguards should not embarrass the

normal economic functioning of Germany, and is of fundamental importance to her creditors and to Germany.

Great care has been taken in fixing conditions of supervision over Germany's internal organization so as to impose the minimum of interference consistent with proper protection. This general plan, fair and reasonable in its nature, if accepted, leads to an ultimate and lasting peace. The rejection of these proposals by the German Government means the deliberate choice of a continuance of economic demoralization, eventually involving her people in hopeless misery.

In the preparation of this report the committee has carefully and laboriously covered the broad field of investigation. It has had the constant co-operation of able staffs of experts, gathering information, digesting it and presenting it. It conducted, on the ground, an examination of the officials of the German Government and representatives of its labour, agriculture and industry. It received from the German Government and its representatives voluminous and satisfactory answers in response to its written inquiries. In connection with various features of its report, both for gathering information and for advice, it has called to its assistance outside experts of international reputation. The published reports and statements of economists of world-wide standing have been in its hands. It has had the benefit of the accumulated information heretofore gathered by your commission.

In its work, the full committee has held, since January 14, 1924, 54 meetings; the sub-committee on the stabilization of the currency, composed of Mon-

sieur Parmentier, Sir Robert Kindersley, Monsieur Francqui and Professor Flora, assisted by Mr. H. M. Robinson, under the chairmanship of Mr. Owen D. Young, has held 81 meetings ; and the sub-committee on the balancing of the budget, composed of Professor Allix, Baron Houtart and Monsieur Pirelli, under the chairmanship of Sir Josiah Stamp, has held 63 meetings. They have had the assistance of Mr. Andrew McFadyean, the general secretary. Again, the time of the committee, outside of that consumed by the meetings, has been given largely to investigation and study.

In speaking of my colleagues and as bearing upon the value of this report, I feel that I should make it known to your commission and to the world, that their Governments have in no case limited their complete independence of judgment and action, either before or after their appointment by you. Limited only by the powers granted by your commission, each has performed his arduous and responsible work as a free agent. These men, searching for truth and advice thereon, were answerable only to conscience. In granting this freedom, the Governments have but followed your own spirit and intent in constituting the committee, but in so doing, they have paid the highest tribute which Governments can bestow—complete confidence in a time of crisis in human affairs. In their vision, in their independence of thought, and above all, in their spirit of high and sincere purpose, which rises above the small things over which the small so often stumble, my colleagues have shown themselves worthy of this trust. That their work, which I now place in your hands, may assist you in the

discharge of your great responsibilities, is their prayer, and the knowledge hereafter, that it has done so, will be their full reward.

CHARLES G. DAWES, *Chairman*

SUMMARY OF PART I¹

I. *The attitude of the committee*

(a) The standpoint adopted has been that of business and not politics.

(b) Political factors have been considered only in so far as they affect the practicability of the plan.

(c) The recovery of debt, not the imposition of penalties, has been sought.

(d) The payment of that debt by Germany is her necessary contribution to repairing the damage of the war.

(e) It is in the interest of all parties to carry out this plan in that good faith which is the fundamental of all business. Our plan is based upon this principle.

(f) The reconstruction of Germany is not an end in itself; it is only part of the larger problem of the reconstruction of Europe.

(g) Guarantees proposed are economic, not political.

II. *German economic unity*

For success in stabilizing currency and balancing budgets, Germany needs the resources of German territory as defined by the Treaty of Versailles, and free economic activity therein.

¹ The summary is furnished only for the convenience of the readers. Parts I and II and the Annexes are the only authoritative statement of the plan.

III. *Military aspects : contingent sanctions and guarantees*

(a) Political guarantees and penalties are outside our jurisdiction.

(b) The military aspect of this problem is beyond our terms of reference.

(c) Within the unified territory, the plan requires that, when it is in effective operation :

1. If any military organization exists, it must not impede the free exercise of economic activities ;
2. There shall be no foreign economic control or interference other than that proposed by the plan.

(d) But adequate and productive guarantees are provided.

IV. *The committee's task*

(a) Stabilization of currency and the balancing of budgets are interdependent, though they are provisionally separable for examination.

(b) Currency stability can only be maintained if the budget is normally balanced ; the budget can only be balanced if a stable and reliable currency exists.

(c) Both are needed to enable Germany to meet her internal requirements and treaty payments.

V. *Economic future of Germany*

(a) Productivity is expected from increasing population, technical skill, material resources and eminence in industrial science.

(b) Plant capacity has been increased and improved since the war.

VI. *Currency and a bank of issue*

(a) All classes will benefit from stabilized currency, especially labor.

(b) Under present conditions rentenmark stability is only temporary.

- (c) A new bank is set up or the Reichsbank reorganized.
- (d) The main characteristics of the bank will be :
 1. To issue notes on a basis stable in relation to gold, with an exclusive privilege ;
 2. To serve as a bankers' bank, establishing the official rate of discount ;
 3. To act as the Government banker, but free of Government control ;
 4. Advances to Government to be strictly limited ;
 5. To hold on deposit reparation payments ;
 6. The capital of the bank will be 400,000,000 gold marks ;
 7. It will be directed by a German president and managing board, who can be assisted by a German consultative committee ;
 8. The due observance of its statutes will be further safeguarded by a general board, of which half of the members, including a commissioner, will be foreign.

VII. *Budget and temporary reparation relief*

Balancing the German budget requires :

- (a) Full economic and fiscal sovereignty, subject to the supervision provided for in this report ;
- (b) A stable currency ;
- (c) Temporary relief from charges on the budget for treaty obligations ;
- (d) Such relief not to suspend essential deliveries in kind.

VIII. *The basic principles of Germany's annual burden*

- (a) Treaty obligations and continuity of balanced budgets.
 1. Balancing the budget does not entail merely provision for internal administrative expenditure.
 2. Germany must also provide within the utmost

limit of her capacity for her external treaty obligations.

3. The budget can be balanced without necessarily dealing with the total capital debt of Germany.
4. It cannot be continuously balanced unless the annual charge is fixed for a considerable period, on a basis clearly prescribed in advance.

(b) Commensurate taxation :

1. Government internal debt has been practically extinguished by the depreciation of the currency.
2. New debt charge ought to be met commensurate with the burden of the French, English, Italian and Belgian taxpayer.
3. The treaty recognizes this principle.
4. It is morally sound.
5. It is economically just in its influence on costs of production.
6. This principle has been applied to the full limit of practicability.

(c) Allies' share in Germany's prosperity.

1. Germany's creditors must share in the improvement in Germany's prosperity.
2. This will be secured by an index of prosperity.

(d) There is an important difference between the German's capacity to pay taxes and Germany's capacity to transfer wealth abroad.

IX. *Normal resources from which payments are made*

Germany will pay treaty charges from three sources :

(A) Taxes ; (B) Railways ; (C) Industrial debentures.

(A) From her ordinary budget :

1924-25 budget may be balanced if it is free from peace treaty charges.

1925-26 budget receiving 500,000,000 gold marks from special sources, may pay that sum for reparation.

			Gold marks
1926-27	.	.	110,000,000 ¹
1927-28	.	.	500,000,000 ¹
1928-29	.	.	1,250,000,000

This is considered a normal year and a standard payment; thereafter additional payments will be made, depending on prosperity.

(B) From railways :

1. Railway bonds—

(a) Eleven milliards of first mortgage railway bonds against a capital cost of twenty-six milliards will be created for reparations ;

(b) These bonds bear 5 per cent interest and 1 per cent sinking fund per annum ;

(c) In view of reorganization, interest is accepted as follows :

			Gold marks
1924-25	.	.	330,000,000
1925-26	.	.	465,000,000
1926-27	.	.	550,000,000
1927-28 and thereafter	.	.	660,000,000

Behind the bonds there will be created 2 milliards of preference shares to be reserved for sale to the public, and 13 milliards of common stock ; three-fourths of the proceeds of the preference shares will be applied, as required, to the payment of debt and for capital expenditure of the railways. The remaining 500 millions of preference shares and all the common shares go to the German Government.

2. Transport tax—

After 1925-26, 290,000,000 gold marks per annum for reparation and balance to German Government.

(C) Industrial debentures :

1. Five milliards of industrial debentures are provided for reparation.
2. The resulting charge on industry is less than that existing before the war and now wiped out by depreciation.

¹ Subject to addition or reduction in certain contingencies.

3. These bonds bear 5 per cent interest and 1 per cent sinking fund, *i.e.* 300,000,000 gold marks per annum.
4. Pending economic restoration, interest and sinking fund are accepted as follows :
 First year : Nothing.
 Second year : 125,000,000 gold marks.
 Third year : 250,000,000 gold marks.
 Thereafter : 300,000,000 gold marks.

X. *Summary of provision for treaty payments*

(a) 1. *Budget moratorium period.*

First year : From foreign loans and part interest on railway bonds :

	Gold marks
Total	1,000,000,000

Second year : From part interest on railway bonds and on industrial debentures, budget contribution, through sale of 500,000,000 gold mark railway shares :

	Gold marks
Total	1,220,000,000

2. *Transition period.*

Third year : From interest on railway bonds and on industrial debentures, from transport tax, and from budget :

	Gold marks
Total	1,200,000,000

subject to contingent addition or reduction of 250,000,000 gold marks.

Fourth year : From interest on railway bonds and on industrial debentures, from transport tax, and from budget :

	Gold marks
Total	1,750,000,000

subject to contingent addition or reduction of 250,000,000 gold marks.

3. *Standard year.*

Fifth year : From interest on railway bonds and on industrial debentures, from transport tax, and from budget :

	Gold marks
Total	2,500,000,000

Thereafter, 2,500,000,000 plus a supplement computed on the index of prosperity. Interest on the securities, but not the proceeds of their sale, is included in these figures.

(b) The first year will begin to run from the date when the plan shall have been accepted and put into effective execution.

XI. *Inclusive amounts and deliveries in kind*

(a) The above sums cover all amounts for which Germany may be liable to the Allied and Associated Powers.

(b) Deliveries in kind are to be continued, but are paid for out of balances in the bank.

XII. *How the annual payments are made by Germany*

(a) The amounts will be raised in gold marks and paid into the bank.

(b) These payments cover Germany's annual obligation.

XIII. *How the payments are received by the creditors*

(a) Germany's creditors will use these moneys in Germany or convert them into foreign currencies.

(b) Experience will show the rate and extent to which the conversion can safely take place.

(c) Danger to stability through excessive remittances is obviated by a transfer committee.

(d) Sums not remitted accumulate, but with a limitation of amount.

XIV. *Guarantees, in addition to railway and industrial bonds*

(a) The following revenues are pledged as collateral security for budget contributions and other payments : alcohol, tobacco, beer, sugar, customs.

(b) The yield of these revenues is estimated to be substantially in excess of required payments.

(c) The excess is returned to the German Government.

XV. *External loan—its conditions and purpose*

Foreign loan of 800,000,000 gold marks meets a double purpose.

(a) Requirements of gold reserve of the new bank.

(b) Internal payments for essential treaty purposes in 1924-25.

XVI. *Organization*

The organization consists of :

(a) A trustee for railway and industrial bonds ;

(b) Three commissioners of (1) railways, (2) the bank, (3) controlled revenues ;

(c) An agent for reparation payments, who will co-ordinate the activities of the above and will preside over the transfer committee.

XVII. *The nature of the plan*

(a) The plan is an indivisible unit.

(b) The aim of the plan is : (1) To set up machinery to provide the largest annual payments from Germany ; (2) to enable maximum transfers to be made to Germany's creditors ; (3) to take the question of " what Germany can pay " out of the field of speculation and put it in the field of practical demonstration ; (4) to facilitate a final and comprehensive agreement upon all the problems of reparations and connected questions, as soon as circumstances make this possible.

TEXT OF THE REPORT

We were invited by the Reparation Commission, by decision of November 30, 1923, to "Consider the means of balancing the budget and the measures to be taken to stabilize the currency" of Germany.

We have been in continuous session since January 14, 1924, in Paris, except for one fortnight spent in Berlin.

We have called in to assist us eminent technical advisers on the various questions which have been under consideration, and have been in touch with representative German opinion.

We have the honor to present the following report which states the unanimous conclusions formed as a result of our studies and inquiries.

Part I of this report states our conception of our task, our conclusions, and the broad outline of our plan.

Part II indicates the considerations which guided us to our conclusions, in particular so far as they result from certain aspects of the present financial and economic condition of Germany, which is here described.

Part III consists of a series of annexes which give the technical detail of our several proposals, and should be read as a supplement to the respective portions of Part I.

PART I

THE COMMITTEE'S CONCLUSIONS
AND SCHEME

I. THE ATTITUDE OF THE COMMITTEE

We have approached our task as business men anxious to obtain effective results. We have been concerned with the technical and not the political aspects of the problem presented to us. We have recognized indeed that political considerations necessarily set certain limits within which a solution must be found if it is to have any chance of acceptance. To this extent, and to this extent only, we have borne them in mind.

The dominating feature of the German Budget is Germany's obligation to the Allies under the Treaty of Versailles. We have been concerned with the practical means of recovering this debt, not with the imposition of penalties, and the guarantees which we propose are economic and not political. At the same time it is no ordinary debt with which we deal, for Germany suffered no appreciable devastation, and her primary moral obligation is towards those who have suffered so severely through the war.

As regards past history, it has not seemed necessary to establish the causes, nor the responsibility for those causes, which have operated to produce the present state of German finances and currency, except in so far as a recognition of their character is required for the prescription of remedies.

Finally, convinced as we are that it is hopeless to build any constructive scheme unless this finds its own guarantee in the fact that it is to the interest of all the parties to carry it out in good faith, we put forward our plan relying upon this interest. We hope the character of our plan will itself assist in securing this guarantee, which is essential for its execution ; but in the main, of course, it must be for others to take such measures as are necessary to maintain or assure it.

II. GERMAN ECONOMIC UNITY

The committee has had to consider to what extent the balancing of the budget and the stabilization of the currency could be re-established permanently in Germany as she actually is at the present moment, with limitations as to her fiscal and economic rights over part of her area.

We should say at the outset that we have been unable to find any practical means of ensuring permanent stability in budget and currency under these conditions, and we think it unlikely that such means exist. The solution of the double problem submitted to us implies indeed the restoration of Germany's credit both externally and internally, and it has appeared to us impossible to provide for this restoration under the conditions mentioned. We have, therefore, been compelled to make the assumption that the fiscal and economic unity of the Reich will be restored and our whole report is based on this hypothesis.

III. MILITARY ASPECTS—CONTINGENT SANCTIONS AND GUARANTEES

If political guarantees and penalties intended to insure the execution of the plan proposed are considered desirable, they fall outside the committee's jurisdiction.

Questions of military occupation are also not within our terms of reference.

It is, however, our duty to point out clearly that our forecasts are based on the assumption that economic activity will be unhampered and unaffected by any foreign organization other than the controls herein provided. Consequently, our plan is based upon the assumption that existing measures, in so far as they hamper that activity, will be withdrawn or sufficiently modified so soon as Germany has put into execution the plan recommended, and that they will not be reimposed except in the case of flagrant failure to fulfil the conditions accepted by common agreement. In case of such failure it is plainly for the creditor Governments, acting with the consciousness of joint trusteeship for the financial interests of themselves and of others who will have advanced money upon the lines of the plan, then to determine the nature of sanctions to be applied and the method of their rapid and effective application.

In saying this we wish to add at once that if the economic system now in operation in occupied territory is modified, we are unanimously of the opinion that a settlement of reparation must be reinforced by adequate and productive securities. We propose for this purpose a system of control which we believe will

be effective, and at the same time such as not to impede the return to financial stability (see XIV below).

IV. THE COMMITTEE'S TASK

As the terms of reference indicate, two principal problems were submitted to us for inquiry—the stabilization of German currency and the balancing of the German budget. It is self-evident that these problems are interdependent. The currency of a country cannot remain stable unless its budget is normally balanced, for if expenditure continually exceeds receipts there will in time be no alternative to the printing of new notes to meet the excess ; and the inflation will inevitably involve depreciation. On the other hand, the task of balancing a budget, unless the currency is relatively stable, is an impossible one, for a falling currency makes calculations both of receipts and expenses unreliable, and in particular causes a continual loss to the taxing authority through the necessary interval of time between assessment and collection. While, therefore, in the nature of things it is necessary that the two problems should in the first instance be studied separately—their interdependence must be consistently borne in mind. In examining each of them separately, we have assumed for the minute that the other has been solved, without ever losing sight of the fact that the stabilization of the currency and the balancing of the budget are means designed to enable Germany to satisfy her own essential requirements and to meet her Treaty commitments, the fulfilment of which is so vital to the reconstruction of Western Europe. It must not be forgotten that the

performance of these commitments is of vital importance, not only for the countries having a claim on Germany, but also for Germany herself. It is, indeed, clear that a Germany whose economy had again become flourishing could not long resist a financial and economic crisis in the nations surrounding her. In order that the restoration of Germany may be definitive, the other nations must also return to the conditions requisite for their financial and economic existence and must likewise be enabled to carry on the normal exchange of goods on which the general prosperity depends.

V. THE ECONOMIC POTENTIALITIES OF GERMANY

The task would be hopeless if the present situation of Germany accurately reflected her potential capacity ; the proceeds from Germany's national production could not in that case enable her both to meet the national needs and to insure the payment of her foreign debts.

But Germany's growing and industrious population ; her great technical skill ; the wealth of her material resources ; the development of her agriculture on progressive lines ; her eminence in industrial science ; all these factors enable us to be hopeful with regard to her future production.

Further, ever since 1919 the country has been improving its plant and equipment ; the experts specially appointed to examine the railways have shown in their report that expense has not been spared in improving the German railway system ; telephone and telegraph communications have been

assured with the help of the most modern appliances ; harbors and canals have likewise been developed ; lastly, the industrialists have been enabled further to increase an entirely modern plant which is now adapted in many industries to produce a greater output than before the war.

Germany is therefore well equipped with resources ; she possesses the means for exploiting them on a large scale ; when the present credit shortage has been overcome, she will be able to resume a favored position in the activity of a world where normal conditions of exchange are gradually being restored.

Without undue optimism, it may be anticipated that Germany's production will enable her to satisfy her own requirements and raise the amounts contemplated in this plan for reparation obligations. The restoration of her financial situation and of her currency, as well as the world's return to a sound economic position, seem to us essential but adequate conditions for obtaining this result.

VI. STABILITY OF THE CURRENCY—A NEW BANK OF ISSUE

We propose to deal in the first place with the currency problem.

The present financial and currency position in Germany is stated in Part II. It will be seen that by means of the Rentenmark, stability has been attained for a few months, but on a basis which, in the absence of other measures, can only be temporary.

The committee proposes the establishment of a new bank of issue in Germany, or, alternatively, a

reorganization of the Reichsbank, as an essential agency for creating in Germany a unified and stable currency. Such a currency, the committee believes, is necessary for the rehabilitation of Germany's finances, the balancing of her budget, and the restoration of her foreign credit. The principal features of the bank plan, which is printed in Annex 1, are as follows :

The bank is to have the exclusive right (with certain minor qualifications) to issue paper money in Germany for the period of its charter, 50 years. All of the many kinds of paper money now circulating in Germany (except limited note issues of certain State banks) are to be gradually withdrawn from circulation, giving place to a single uniform paper currency, the bank notes of the new bank. These bank notes will be protected by a normal legal reserve of $33\frac{1}{3}$ per cent, and by other liquid assets. The reserve will be held largely in the form of deposits in foreign banks.

The plan contemplates that as a permanent policy the notes of the bank shall be redeemable in gold, but the committee is of the opinion that at the time of the inception of the bank the situation will temporarily not allow of the application of the rule of convertibility. It, therefore, suggests that a currency should be created which will be kept stable in relation to gold, and as soon as conditions permit be placed on a convertible basis.

Like the present Reichsbank, the new bank will serve as a bankers' bank, rediscounting the safest category of short-term bills, etc., and so establishing the official rate of discount. It will also handle for the other banks the giro system for the transfer of bank credits.

The bank will deal with the public, making short-time commercial loans and discounts, effecting transfers, and receiving deposits.

It will be the depository and the fiscal agent of the German Government. It may make short-term loans to the Government, but the amount and character of these loans are strictly limited, and the granting of such loans is carefully safeguarded. The German Government is to participate in the profits of the bank but the bank is to be entirely free from governmental control or interference.

Treaty funds collected in Germany are all to be deposited in the new bank to the credit of a special account and are only to be withdrawn by the creditor nations under conditions and safeguards which will adequately protect the German exchange market and the interests of the creditor nations and the German economy.

The new bank will have a capital of 400,000,000 gold marks, part to be subscribed in Germany and part abroad. It is to be administered by a German president and a German managing board, which can have the assistance, as in the case of the Reichsbank, of a consultative committee. Alongside of this German managing board there is to be another board, called the general board, which will consist of seven Germans and seven foreigners, one each of the following nationalities : British, French, Italian, Belgian, American, Dutch and Swiss. This general board is given broad powers in such matters of bank organization and operation as might affect the interests of the creditor nations. One of the foreign members of the general board will be known as the "commissioner". He

will be responsible for seeing that there is no infringement of the provisions relative to the issuance of notes and the maintenance of the bank's reserves. Decisions of the general board will require a majority vote of 10 of the 14 members, unless both the president and the commissioner are included in the majority, in which case a simple majority will be sufficient. Thus, co-operation by members of both groups is necessary for action.

It has been suggested in various quarters that to insure the bank's independence of the Government, an issue department, which could be under the direction of the commissioner and which would be responsible for the reserve and for the issue of notes, should be established abroad. Such a guarantee is political rather than technical in character, and to propose it is outside the jurisdiction of the committee.

A study of the Annex is essential to a thorough comprehension of the committee's recommendations, and it has contented itself with drawing attention here to the main features to which it attaches importance.

Still, assuming for the minute that the budget problem has been successfully surmounted, we believe that our recommendations furnish a practical method, not only of stabilizing the German exchange, but of securing to German economy those credits in stable value which are essential to its reinvigoration and to the payment of reparation.

Labor also will benefit, for its interests above all are dependent upon stability. Some classes of the community may have compensations in the amazing overturn of fortunes which inflation brings—some

benefit and others suffer. But for the working classes instability is wholly evil ; it has no compensations whatever. In this connection, we may refer to the views expressed by the representative of labor who appeared before us in Berlin : " Speaking not for the whole of the German people, but merely for the class which he represented, Herr Grassmann stated that the German working classes could not stand another period of inflation. They must appeal to the world for a stable currency which would render it possible for them to buy something with their wages even four weeks after they had received them." It is clear that if the statutes of the bank are strictly observed there can be little danger of future inflation. One of the advantages to be expected is that foreign currencies immobilized in Germany, which are at present economically sterile, will be mobilized in the form of subscriptions or deposits to the bank and return to economic uses.

VII. THE BUDGET AND TEMPORARY REPARATION RELIEF

Attention may now be directed to the other main aspect of our problem, the balancing of the budget. We propose to deal first with the general budget of the Reich, and secondly and separately with the railways, which at present are contributing nothing to the general budget.

In addition to a stable currency and the economic unity defined above, the budget requires certain relief from immediate charges for treaty purposes, which, while securing the budgetary position, will not imply

the cessation of the payments indispensable to the Allies in the form of deliveries in kind.

VIII. THE BASIC PRINCIPLES OF GERMANY'S ANNUAL BURDEN

(a) TREATY OBLIGATIONS AND THEIR BEARING UPON THE CONTINUITY OF BALANCED BUDGETS

It will be obvious that the balancing of the budget is, like the stabilization of the currency, of little value unless it can be maintained. It is not enough to be satisfied that one or even several budgets will be balanced. It is necessary to consider under what conditions, assuming sound administration, financial as well as currency stability can be continuously insured, or rather under what conditions such stability once gained is likely to be endangered. It is inevitable, therefore, that we should look forward, not indeed in the same detail but with proper regard to the chief determining factors, to those later years during which Germany will have gradually to liquidate her external treaty obligations.

We repudiate, of course, the view that Germany's full domestic demands constitute a first charge on her resources and that what is available for her treaty obligations is merely the surplus revenue that she may be willing to realize. But at the same time, if the prior obligation for reparation that is fixed for Germany to pay, together with an irreducible minimum for her own domestic expenditure, make up in a given year a sum beyond her taxable capacity, then budget instability at once ensues and currency stability is also

probably involved. In that event, an adjustment of the treaty obligations of the year is obviously the only course possible. The amount that can safely be fixed for reparation purposes tends therefore to be the difference between the maximum revenue and minimum expenditure for Germany's own needs. We shall naturally and inevitably be led to discuss later the amount of reparation payments which can be made out of budget resources and the method by which they can be effected, if the postulates of a stable currency and of a balanced budget are accepted. It would be to ignore both the plain dictates of justice, the practical conditions which must determine the acceptance or rejection of our proposals, and the context and obvious purpose of our terms of reference, if we approached our task from any other angle.

It might, indeed, be thought that if we have thus been involved in a consideration of reparation payments, it is only of such payments as are to be made during the reconstruction period of the next few years. Our task, it may be said, is to advise as to the way to attain stabilization and a balanced budget, not as to the sums to be demanded from Germany when that aim has been achieved. But no such sharp division of periods is possible, for the following reasons :

1. The basis on which the budget is balanced at the end of the reconstruction period, and the sum it includes for reparation, must obviously determine to a large extent the sums payable in the following years. Otherwise, as we have said, an equilibrium, though once attained, might be rapidly lost. The effect would have been in vain and the same problem would again present itself.

2. More important still is the fact that the success of our proposals to attain financial stabilization depends essentially upon the return of confidence. Without this the return of German capital invested abroad, the attraction of foreign capital for the purposes mentioned in the scheme and of foreign credits for the current conduct of business, and even the proper collection of taxes, will alike be impossible.

Such confidence cannot be attained unless a settlement is now made which both Germany and the outside world believe will give an assurance that for a considerable period neither its finances nor its foreign relations will be endangered by renewed disputes. Such an assurance, as we shall see, does not mean making the charge on Germany a uniform one over a period of years, nor even deciding beforehand what the charge shall be in each of these years. But it does mean settling beforehand the method by which increases shall be determined.

When we speak of the adoption of such a method for " a considerable period ", we are thinking primarily of the period which lenders and investors whose money is required as a part of our scheme will have in mind. As we shall see, our scheme needs both foreign and internal subscription to a bank of issue, and in particular an external loan as an essential condition of enabling and assuring reparation payments. We fully recognize both the necessity and the justice of maintaining the principle embodied in the treaty that Germany's payments should increase with what may prove to be the increase in her future capacity.

We also recognize that an estimate now made once for all might well underestimate this, and that it is

both just and practicable that the Allies should share in any increased prosperity. All that we regard as essential as a condition of stabilization is that any such increased demands to correspond with increasing capacity should be determined by a method which is clearly defined in the original settlement, and which is capable of automatic, or at least professional, impartial, and practically indisputable application.

This requirement we have tried to meet, as will be seen, by providing that in addition to a fixed annual payment, there shall be a variable addition dependent upon a composite index figure designed to reflect Germany's increasing capacity.

It is outside the competence of the committee to establish a limit of years or of amount for the working of the index, nor is it within their competence to fix the number of annuities which Germany will have to pay, as this would practically mean the fixation of a new German capital debt. In any new arrangements made for a definite settlement of the various international financial obligations arising out of the war it would be easy as regards the German debt to apply our plan to those new conditions.

(b) COMMENSURATE TAXATION

We have done our utmost to apply the principle of commensurate taxation.

It is not open to dispute, as a simple principle of justice, and it is contemplated by the treaty, that the German people should be placed under a burden of taxation at least as heavy as that borne by the peoples

of the Allied countries. No single person in Germany, whether speaking as an individual or representing any section of the nation, has failed to accept that principle when it has been squarely put to him. Any limitation upon it, if there is one, must be a limitation of practicability and general economic expediency in the interest of the Allies themselves. Obviously it is morally sound ; and it would be clearly repugnant to all sense of natural justice that the taxpayers of countries with large and important regions devastated by the war should bear the burden of restoring them, while the taxpayer of Germany, on whose territory the war caused no comparable devastation, escaped with a lighter burden. The principle is, at the same time, economically just, for it is obviously unfair and in every way undesirable that the Allied taxpayer should be penalized by the fact either that taxes resulting from the war weigh more heavily upon him as a consumer, or that in competition in his business he should be handicapped by greater burdens on the costs of production, including wages, than his German competitor bears.

We have borne in mind both the importance of the virtual extinction of debt in Germany and the general burden of taxation in Allied countries. As we indicate more fully in Part II, there are many difficulties in theory and practice, but in spite of them we have done our utmost to secure that the proposals we make should involve a "commensurate burden" in the fairest interpretation and application of that principle which is practicable. We are satisfied that in what we propose we are not imposing a heavier burden ; we are also satisfied that we have applied the principle as far as

it is practicable in the interests no less of the Allies than of Germany.

- (c) AN INDEX OF PROSPERITY IS NECESSARY TO ENABLE THE ALLIES TO SHARE IN THE INCREASED PROSPERITY OF GERMANY

After a short period of recovery we believe that the financial and economic situation of Germany will have returned to a normal state, after which time the index will begin to operate.

The system of a variable annuity has the sanction of usage in the schedule of payments. But we venture to suggest for most careful consideration the advisability of altering the existing index, constituted by the value of exports. This index appears to us to be imperfect.

We are aware that there are cogent reasons both for and against any test which may be suggested, and we do not propose to examine them in detail. We are of opinion that the undoubted shortcomings of particular indices are neutralized to a large extent if a composite index is chosen, and we have a reasonable assurance that a fair measure of Germany's increasing prosperity will be obtained. Our suggestions, after considering many various alternatives for such an index, are given in Annex 2.

We take upon ourselves to recommend these suggestions, as an indication, to the attention of the Reparation Commission.

We are of opinion that at least during the period within which the loan which we propose is being amortized, the annual charge upon Germany should

not be heavier than that which would result from the application of this index ; nor would the committee accept any responsibility for the balancing of the budget even in later years if heavier payments than the above were called for.

We propose that an average of years (chiefly 1926, 1927, 1928 and 1929) should be taken as the base ; that the percentage increase shown by each of six sets of representative statistics (railway traffic, population, foreign trade, consumption of tobacco, etc., budget expenditure, and consumption of coal) should be ascertained ; and that the average of these six percentages should be taken as indicating the proportionate increase to be added to the treaty sums demanded in a given future year.

Under this system Germany will retain her incentive to develop, as she retains the major part of the advantage of any increase in prosperity, while the Allies obtain a reasonable share in this increase and avoid the risk of losing through a premature estimate of future capacity.

At the same time, the adoption of a method involving not discretionary but automatic application gives the necessary assurance from the commencement both to Germany and the world that treaty demands will not, in the period to which the settlement relates, be again the subject of negotiation and dispute.

We propose, however, one further correcting factor of quite a different character which is only a precautionary measure and may never be actually involved. The treaty prescribes Germany's obligations in terms of gold, and for convenience we have expressed our estimate in the same terms. But both the burden on

Germany, and the advantage to the Allies of treaty payments, consist of goods and services. Gold is only a measure of value, and over a long period of years may be an uncertain and defective one. It is only in the case of really important changes that any action is necessary and we therefore propose that a reduction or increase of the figures both as regards the standard and the supplementary payments should be made automatically in correspondence with changes in the general purchasing power of gold, whenever, by the decision of an impartial authority, such changes amount to more than 10 per cent.

(d) THE DISTINCTION BETWEEN THE TAXPAYERS'
"CAPACITY TO PAY" IN GERMANY AND GER-
MANY'S CAPACITY TO PAY THE ALLIES

There has been a tendency in the past to confuse two distinct though related questions ; *i.e.* first, the amount of revenue which Germany can raise available for reparation account, and, second, the amount which can be transferred to foreign countries. The funds raised and transferred to the Allies on reparation account cannot, in the long run, exceed the sums which the balance of payments makes it possible to transfer, without currency and budget instability ensuing. But it is quite obvious that the amount of budget surplus which can be raised by taxation is not limited by the entirely distinct question of the conditions of external transfer. We propose to distinguish sharply between the two problems, and first deal with the problem of the maximum budget surplus and afterwards with the problem of payment to the Allies.

In the past the varying conclusions formed as to Germany's "capacity" have often depended upon which of these two methods has been chosen.

As a first method of approach the budgetary criterion has obvious advantages and attractions. Reparation must first be provided for as an item in the budget.

The budget itself is the sum of decisions taken by a single authority. It is capable of expert judgment and, within narrower limits of error, of calculation and analysis.

By comparison a country's "economic balance" defies exact calculation. The balance, even at a given moment, can only be estimated approximately, for the invisible exports and imports which constitute an important part of it cannot be known exactly. And a *potential* economic balance is much more uncertain. It depends not on the decisions of a single authority, but on the enterprise of individual merchants and manufacturers. Reparation demands themselves will increase it. The extent to which economic adaptation is possible over a long period of years, under the pressure of external obligations, is a matter of conjecture; an existing economic balance, before such obligations have been in operation long enough to have their effect on the economy of the country, gives a very uncertain criterion. The economic balance is, therefore, by comparison with the budget, incapable of close calculation, "unmanageable", and too elastic.

But the limits set by the economic balance, if impossible of exact determination, are real. For the stability of a country's currency to be permanently

maintained, not only must her budget be balanced, but her earnings from abroad must be equal to the payments she must make abroad, including not only payments for the goods she imports, but the sums paid in reparation. Nor can the balance of the budget itself be permanently maintained except on the same conditions. Loan operations may disguise the position—or postpone its practical results—but they cannot alter it. If reparation can, and must, be provided by means of the inclusion of an item in the budget, *i.e.* by the collection of taxes in excess of internal expenditure, it can only be paid abroad by means of an economic surplus in the country's activities.

We have, it will be seen, attempted to give effect to both these sets of considerations by a method we believe to be both logical and practical. We estimate the amount which we think Germany can pay in gold marks by consideration of her budget possibilities ; but we propose safeguards against such transfers of these mark payments into foreign exchange as would destroy stabilization and thereby endanger future reparation.

By comparison with a system which reduced the sums considered possible on budget grounds because of considerations based upon estimates of the possible economic balance, this has the following advantages :

(*a*) It enables the maximum sums to be obtained and paid to the Allies' account.

(*b*) Any limitation upon transfers into foreign currencies will depend upon the exact economic position as it develops in fact and not upon a necessarily problematical estimate of it ; and the limitation will only apply so far as it actually proves necessary.

(*c*) Even so far as the sums paid in reparation

cannot be completely transferred, they can, under certain conditions, be used by the Allies for internal investment in Germany.

Above all, we recommend our proposal for these reasons : It adjusts itself automatically to realities ; the burden which should rest upon the German taxpayer should, in justice, so obviously be commensurate with that borne by the Allied taxpayer that, in our view, nothing but the most compelling and proved necessity should operate to make it lighter. It would be both speculative and unjust to attempt to forecast the possibilities of the future exchange position and to determine Germany's burden in advance with reference to a problematic estimate of it. Experience, and experience alone, can show what transfer into foreign currencies can in practice be made. Our system provides in the meantime for a proper charge upon the German taxpayer, and a corresponding deposit in gold marks to the Allies' account ; and then secures the maximum conversion of these mark deposits into foreign currencies which the actual capacity of the exchange position at any given time renders possible.

IX. THE NORMAL RESOURCES FROM WHICH GERMANY SHOULD MAKE PAYMENTS

With these principles in mind, we recommend that Germany should make payment from the following sources :

- (a) From her ordinary budget.
- (b) From railway bonds and transport tax.
- (c) From industrial debentures.

We proceed to consider each of these in turn.

(a) PROVISION FROM THE BUDGET FOR TREATY PAYMENTS ; BUDGET EQUILIBRIUM

To recommend what payments Germany can make from her ordinary budget, and from what dates, is in effect to answer the first of the two specific questions put to us ; *i.e.*, how to “ balance the German budget.” For in our view, if the economic and fiscal unity of the Reich is restored, if a stable currency is established, and if the budget is given temporary relief from treaty payments, Germany should balance her budget from her own resources by a vigorous internal effort supported by the confidence which a general and stable settlement may be expected to give, and she should thereafter be able to maintain it in equilibrium, if the future charge for treaty payments is determined by a method which assures that it will not exceed her capacity.

In other words, we do not consider that an external loan is needed—as in the case of Austria and Hungary—to be devoted specifically to meeting ordinary deficits during a transition period. External money is indeed an essential part of our scheme, in part for the establishment of a new bank of issue ; in part to prevent an interruption of deliveries in kind during the transition period ; and essentially to create the confidence upon which the whole success of the scheme depends. But we do not propose that it should be confined or devoted specially to meeting deficits on ordinary expenditure even during a transition period. On the contrary, as will be seen, we think that from the beginning internal resources should meet internal ordinary expenditure, and at a very

early date should suffice in addition to make substantial contributions toward the external debt.

The present budget position is described in some detail in Part II, which includes our criticisms and recommendations as to the measures we think practicable for economizing in expenditure and increasing taxation.

We confine ourselves here to our conclusions as to the provision that can be made for meeting treaty payments.

1924-25 budget.—In the first year (1924-25) we consider that the ordinary budget may balance. Even if there is a deficit we are confident that it should not be such as to endanger the stability of the currency, and that at the worst the Government can meet it by the orthodox expedients—increases of existing taxation, further emergency taxes, and internal loans.

Even if energetic measures are taken to obviate any deficit in 1924-25, we are satisfied that neither by reduction of expenditure nor by an increase in receipts can Germany be expected to provide out of budget resources for any peace-treaty payments to the Allies, and that any demand for their payment would imperil both the structure of the budget and the stability of the currency. How relief can be otherwise provided for the reparation creditors will be considered separately.

The fundamental importance of the effect upon the stability of the Reich budget of the finances of the States (Prussia, Bavaria, etc.) and of the communes has greatly exercised us, and we have stated our views on the system of subsidies and local expenditure in Part II.

1925-26 budget.—On passing to the budget for 1925-26, it is obvious that the existing data are insufficient for a precise judgment on its detailed prospects. Certain general conclusions are, however, possible.

On the revenue side, the lapse of a whole year of currency stability and readjustment should of itself increase receipts. The period of recuperation will not have been long enough completely to restore the yield of the income tax, but there will at least be gold mark profits of 1924-25 on which to frame a reasonable assessment. Consumption taxes should be directly affected by returning prosperity.

On the expenditure side it may be hoped with some degree of confidence that expenditure on unemployment will exhibit a notable decrease. The expenditure on the army is capable of reduction. An automatic decrease will make itself felt in the pension charge. It is not to be expected, on the other hand, that sums thus saved on these or other heads will represent a net benefit to the budget. In particular, and this remark applies also to the budgets of the immediately succeeding years, increases in the salary charges of the Reich which can probably not be entirely off-set by decreases in personnel must be anticipated.

Some increase of expenditure must therefore be expected. On balance, however, we are of opinion that the growth in receipts should be more than sufficient to counterbalance any increase in expenditure. Whatever views may be held about the eventual outcome of the 1924-25 budget, we are clear that the second year should show a substantial improvement upon it. The result of the first year therefore affects our view

as to whether the result of the following year will be actually an appreciable surplus. If it should prove that the 1924-25 budget cannot be balanced by taxation alone, the improvement to be expected in the following year might not be more than sufficient to secure the balance desired. If, on the other hand, no loans were necessary in 1924-25, any improvement in the following year would be net surplus and entirely available for meeting peace-treaty charges.

We are clearly of the view that, if the two years are taken together, receipts should be sufficient to cover ordinary expenditure, and we do not exclude the possibility of a small surplus. On the other hand it cannot be stated with certainty that the inclusion of a compulsory liability for peace-treaty charges will not destroy the whole balance, and it is obviously vital that the mistake should not be made of fixing as a first payment during recovery a sum which the circumstances may not justify.

The stability of future reparation payments and German credit in general might thus be endangered.

There is another factor that must be taken into account. For the successful operation of the scheme for dealing with the railways, to which we shall refer later, it is necessary that the proceeds of the transport tax to the extent of 250,000,000 gold marks should be withdrawn for this year from the revenue side of the budget and devoted to the payment of treaty charges.

On the other hand that scheme also provides for the sale by the railway company of preference shares to the nominal value of 2,000,000,000 gold marks, one-quarter of the proceeds accruing to the profit of the German budget and the balance providing for

past and future capital expenditure of the railways. For the successful execution of the railway scheme we attach great importance to the sale to the public of these preference shares and we feel justified in assuming that before the end of the year 1925-26 the German Government will be in effective possession of 500,000,000 gold marks as a result of this transaction. The budget can therefore be reinforced to that extent and after making allowance for the withdrawal of 250,000,000 gold marks in respect of the transport tax there will be a balance of 250,000,000 gold marks which should be available for meeting peace-treaty charges.

By the procedure we have indicated any danger of hampering future stability by a premature call upon the ordinary resources of the German budget will be obviated and there will be an additional inducement to transfer the preference shares to private ownership.

We, therefore, recommend that in the year 1925-26 Germany should be required to meet peace-treaty charges out of her budget to the extent of 250,000,000 gold marks. If, contrary to our expectation, the budget fails to realize 500,000,000 gold marks from the sale of preference shares, we consider that any resultant deficit could be met by an internal loan.

The proceeds of the transport tax should thenceforth not figure in the revenue side of the budget except to the extent to which they exceed 250,000,000 gold marks in 1925-26 and 290,000,000 gold marks in subsequent years.

We once more reserve the question of providing for further reparation payments by other means.

The budget of later years.—As we have said already, Germany's credit cannot rest upon the mere establishment of budget equilibrium. It must be clear that it can be permanently maintained. It is, therefore, necessary for us to consider what burden Germany can bear in the near future without danger to that equilibrium. In this connection, certain assumptions have necessarily been made. It has been considered that if for two years the budget is relieved from peace-treaty charges and a stable currency is re-established, Germany ought in 1926 to be making rapid strides toward complete recovery, and should in three years, by 1928, reach a normal economic condition. We have taken into account the probable yield of her several taxes and her taxable capacity as a whole and the probable changes in expenditure under these improving conditions, and after making full allowance for error we have reached definite conclusions as to the sums which can be fixed for peace-treaty charges without endangering the stability of the budget. These results we have considered in relation to the maximum probable rate at which the national income can be expected to grow from its present point and the maximum proportion of that growth which can successfully be absorbed in taxation.

We draw the conclusion that, allowance being made for some inevitable growth in expenditure, the budgets for the three subsequent years can safely provide for the following maximum sums :

	Gold marks			
1926-27	110,000,000
1927-28	500,000,000
1928-29	1,250,000,000

On the other hand, regard being had to the fact that it is difficult to estimate the recuperative power of Germany in 1926-27 and 1927-28, we would propose that these amounts should be regarded as subject to modification by a sum not exceeding 250,000,000 gold marks on the following plan : If the aggregate controlled revenues as defined in Section XIV exceed 1 milliard in 1926-27 or 1,250,000,000 in 1927-28, an addition shall be made to the above contributions equal to one-third of such excess. Conversely, if those aggregate revenues fall short of 1 milliard in 1926-27 or 1,250,000,000 in 1927-28, the total contributions shall be diminished by an amount equal to one-third of the deficiency.

We believe that at the end of the fiscal year 1928-29 the financial and economic situation of Germany will have returned to a normal state, and that in this and subsequent years the ordinary budget should support the inclusion of a sum of 1,250,000,000 gold marks. The total sums, therefore, to be provided from *ordinary budget resources* would be the standard payment of 1,250,000,000 plus the additional sum (already referred to) computed upon the index of prosperity, as from 1929-30 onward.

We have considered carefully the question of the amount to which the index should be applied and, as we are desirous that in the earlier years of her recovery German progress shall not be unduly handicapped by shortage of new capital, we think that it will be desirable to apply to the purely budget contribution 1,250,000,000 (or one-half of the total standard payment) for the first five years of the application of the index, viz. 1929-30 to 1933-34. After that date,

1934-35, the index should apply on the full amount of the contribution, namely, 2,500,000,000 gold marks.

(b) RAILWAYS

We have conducted, with the assistance of two eminent railway experts, a close examination of the situation of the German railways. The subject is an important one, for the railways have been operated since the armistice at a constantly increasing loss, which has involved heavy burdens upon the German budget.

Most, if not all, railway systems have passed through a period of great difficulty since the war from causes which were largely beyond their control. It is clear, however, from a study of the report drawn up by the experts, which will be found in Annex 3, that the greatest difficulties were of the Germans' own making. The German railway administration cannot but plead guilty to two serious charges. In the first place, as is proved by the reduction which it is now possible to make, they have been enormously over-staffed, even when all account is taken of the introduction of an eight-hour day and of peace-treaty charges justifying temporary disorganization. In the second place, the administration has indulged in extravagant capital expenditure for which the official excuse is that construction was largely undertaken to ward off unemployment.

It is only just to observe that the situation has now improved out of recognition, though more remains to be done. The German Government have separated the railways from the ordinary administration and

assimilated them in form, so far as is possible, to a business concern. Capital construction has been slackened and fares have at any rate been raised to a point where the railways are not only self-supporting, but can provide some profit.

These measures are, however, insufficient. The capital value of the railways is estimated by the experts on a conservative basis at 26 milliards. They are unencumbered with old debts, for their prior charges were extinguished by the depreciation of the mark, and these prior charges absorbed half the gross profits in the pre-war period, which amounted to approximately 1 milliard gold marks, in spite of the fact that it was the custom to include in operating and maintenance charges large expenditures which might properly have been charged to capital account.

The railway experts are convinced, and we share their conviction, that under proper management, under unified control, and with a proper tariff policy, the railways can without difficulty earn a fair return upon their present capital value.

Nor need it be thought that this improvement in profits will be made at the expense of the German people by increasing their fares and the cost of all goods transported by rail. It can be substantially provided by the more economical administration of the railways themselves.

In saying this we have not in mind inadequate wages, but rather the elimination from operating and maintenance charges of certain elements of waste and also expenditure more properly chargeable to capital account.

The railway experts arrived, however, with con-

siderable reluctance at the conclusion that it would be useless to expect anything approaching the full measure of improvement which is possible, so long as the railways remain in the control of the Government. The whole spirit of the Government's ownership in the past has been directed to running the railways primarily in the interest of German industry, and only secondarily as a revenue-producing concern, and in their opinion a complete break with old traditions is essential.

We accept their conclusions and we recommend the conversion of the German railways into a joint stock company. It is not our intention thus to deprive Germany of the administration of her railways in favor of the Allies ; on the contrary, our plan demands only a modest return on the capital cost, and so long as this return is forthcoming we do not anticipate any interference in the German management of the undertaking.

We would add that if, as the German Government has itself proposed, the exploitation of the railways is divided into several systems, this division should not affect detrimentally their financial unity.

The details of our proposals will be found in Annex 4, and we will content ourselves with giving only a broad outline at this point.

The committee recommends that there should be paid from the German railways 11 milliard gold marks to be represented by first mortgage bonds bearing 5 per cent interest and 1 per cent sinking fund per annum. The capital cost of the German railways computed on a gold mark basis is estimated by our experts at 26 milliards. The net earnings of

these railways before the war, after liberal and indeed exaggerated charges to operating and maintenance, were as high as 1 milliard. The interest and sinking fund on these debentures represents less than 3 per cent of the capital cost, which is a very modest charge on the capital investment compared with that required in many other countries of the world.

Realizing that during the period of reorganization of the railways, full interest and sinking fund charges should not be required, we think payments on account of interest should be as follows :

	Gold marks
1924-25	330,000,000
1925-26	465,000,000
1926-27	550,000,000
1927-28 and thereafter	660,000,000

This is regarded as a normal year.

In addition to the 11 milliards of bonds, the new railway company is to have a capital of 2 milliards of preference shares and the remainder of its capital cost, namely, 13 milliards, is to be represented by common stock ; $1\frac{1}{2}$ milliards of preference shares are to be set aside in the treasury of the company, for sale to private persons to provide funds for the payment of existing indebtedness and future capital expenditures. The proceeds of the sale of the other 500,000,000 of preference shares and all of the common shares are to go to the German Government.

The railways are to be managed by a board of 18 directors, of whom 9 will be chosen by the German Government and the private holders of preference shares, and the other 9 will be named by the trustee of the bonds, 5 of whom may be Germans. It is therefore

contemplated that the board will have 14 German members. The chairman of the board and the general manager of the railways will be German.

It is contemplated that the railway company will be free to conduct its business in such manner as it may think proper, provided always, however, that the German Government will have such control over its tariffs and service as may be necessary to prevent discrimination and to protect the public. Such government control, however, is never to be exercised so as to impair the ability of the railway company to earn a fair and reasonable return on its capital cost.

The railway commissioner represents the interests of the bondholders. His principal duty will be, in the absence of default in interest, to receive reports, statistical and financial returns, and generally to see that the interests of the bondholders are not menaced.

(c) INDUSTRIAL DEBENTURES

The committee has been impressed with the fairness and desirability of requiring as a contribution to reparation payments from German industry, a sum of not less than 5 milliards of gold marks, to be represented by first-mortgage bonds bearing 5 per cent interest and 1 per cent sinking fund per annum. This amount of bonds is less than the total debt of industrial undertakings in Germany before the war. Such indebtedness has for the most part been discharged by nominal payments in depreciated currency, or practically extinguished. In addition the industrial concerns have profited in many ways through the depreciated currency, such as the long-delayed pay-

ment of taxes, by subsidies granted and advances made by the German Government, and by depreciation of emergency money which they have issued. On the other hand it is incontestably true that there have also in many instances resulted losses, through the depreciation of currency, from the sale of output at fixed prices, and in other ways.

It is unnecessary for the committee to make an estimate of the total amount of such profits and losses ; it is sufficient to say that the committee is satisfied that a burden of mortgage debt of the amount of 5 milliard gold marks on the industries of Germany, fairly apportioned, bearing a moderate rate of interest, and payable on long maturity, does not create a burden greater than that which would have existed had there been no depreciation of currency.

In fact the fairness of such a proposal has been recognized by the German Government itself in a proposal submitted on June 7, 1923, to all the allied and associated governments.

This proposal was later confirmed by persons in high authority in the subsequent and present German Governments.

The offer referred to above was of 10 milliard gold marks, covering business, industry, banking, trade, traffic, and agriculture. The request of the committee is for 5 milliards only, and it suggests the exemption of agriculture from the obligations of the mortgage.

Realizing the importance of agriculture to a nation unable to provide its entire food supply, we feel more reserved in making a recommendation as to the burdens which should fairly be put on it, though we

cannot close our eyes to the fact that a very large amount of agricultural indebtedness has been discharged at merely nominal figures and the owners of equity in land have realized substantial profits at the expense of their former creditors.

We desire to make it clear that the committee in asking for mortgage bonds on industries does not recommend in any sense an unfair or discriminating burden against them, and so we do recommend that equalization be properly and fairly made by the German Government for the benefit of its own budget. If, in the opinion of the German Government, a burden on other property should be imposed in order to equalize the burden of reparation payments on property other than industrial property, we recommend that it be done in favor of the German budget either by a further valorization tax, or by a specific lien or otherwise. If this course be followed and a fair and accurate system of direct taxation be adopted, the committee believes that all classes in Germany will be called upon to make their fair and reasonable contribution to peace-treaty charges either through direct or indirect taxation.

Realizing the depletion of the liquid capital supply in Germany, and that a period should be provided for its recuperation, we recommend that the interest on the 5 milliards of debentures above referred to be waived entirely during the first year ; that the interest during the second year be $2\frac{1}{2}$ per cent ; during the third year 5 per cent ; and thereafter 5 per cent plus 1 per cent sinking fund. In the event of default in the payment of interest, sinking fund, or principal on any of the said debentures, provision has been made

for recovery from the German Government through the commissioner of controlled revenues.

The plan will be found in Annex 5.

X. SUMMARY OF PROVISION FOR TREATY PAYMENTS

We are now in a position to summarize the full provision we contemplate for treaty payments :

Budget moratorium period—

First year. From foreign loan and part interest (200,000,000) on railway bonds	Gold marks 1,000,000,000
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Second year. From interest on railway bonds (including 130,000,000 balance from first year) and interest on industrial debentures and budget contribution including sale of railway shares .	1,220,000,000
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Transition period—

Third year. From interest on railway bonds and industrial debentures, from transport tax and from budget (subject to contingent addition or reduction not exceeding 250,000,000 gold marks)	1,200,000,000
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Fourth year. From interest on railway bonds and industrial debentures, from transport tax and from budget (subject to contingent addition or reduction not exceeding 250,000,000 gold marks) .	1,750,000,000
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Standard year—

Fifth year. From interest on railway bonds and industrial debentures, from transport tax and from budget .	2,500,000,000
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The first year will begin to run from the date when the plan shall have been accepted and made effective.

We must point out that the total figures indicated for each year must include the sums paid by the

German budget, the railway company, or the debtors on industrial debentures, whoever may be the actual recipients of these sums, the Reparation Commission, the capitalists who purchased securities, or even the debtors themselves if they have repurchased their bonds.

These figures clearly do not include the proceeds from the sale of capital assets which may be effected by the creditor governments. As soon as the plan is put into execution, the Reparation Commission will be in possession of bonds for 16 milliard marks, which may be sold to the extent to which the financial markets are capable of absorbing them. Subsequently, bonds representing the transport tax and the contribution from the budget may be issued, and will enable the governments to realize the capital of their claims.

XI. INCLUSIVE AMOUNTS.—DELIVERIES IN KIND

THE INCLUSIVE NATURE OF THE PAYMENT

Before passing from this part of our report we desire to make it quite clear that the sums denoted above in our examination of the successive years comprise all amounts for which Germany may be liable to the allied and associated powers for the costs arising out of the war, including reparation, restitution, all costs of all armies of occupation, clearing-house operations to the extent of those balances which the Reparation Commission decide must legitimately remain a definitive charge on the German Government, commissions of control and supervision, etc. Wherever in any part of this report or its annexes we refer to treaty payments, reparation, amounts payable

to the Allies, etc., we use these terms to include all charges payable by Germany to the allied and associated powers for these war costs. They include also special payments such as those due under articles 58, 124 and 125 of the Treaty of Versailles.

The funds to be deposited in the special account in the bank are to be available for the foregoing purposes, notwithstanding anything in this report which may be interpreted to the contrary, though in saying this we are not to be read as prejudicing questions of distribution or questions of priority between the various categories of charges.

We venture to emphasize the fact that from the point of view from which we are called upon to regard the question these obligations of Germany are one, and that any addition to one category of charges can only be made at the expense of another.

The committee have noted the important fact that Germany is not in a position to ascertain her liabilities out of the peace treaty as demands are made upon her from time to time during the year, which cannot be calculated beforehand. It appears to us a matter of impossibility for any budget to be scientifically compiled and satisfactorily balanced under such an arrangement, and that, therefore, means should be found to bring this system to an end. The difficulty will be satisfactorily met if Germany's liabilities for any particular year are absolutely limited according to our plan and, as suggested above, made inclusive of all possible charges whether in or outside Germany, including the costs of the administrative controls which are set up by our plan.

DELIVERIES IN KIND

We have given special attention to the question of deliveries in kind ; in their financial effects, deliveries in kind are not really distinguishable from cash payments, and they cannot in the long run exceed the true surplus of German production over consumption available for export without either upsetting the exchange or rendering foreign loans necessary.

Having made this clear, we have to remember that :

1. Deliveries in kind are dealt with in the treaty.
2. They are now an inevitable part of the economic conditions of several of the Allies and cannot be wholly removed without considerable dislocation.
3. If the principle is not carried too far, they may represent a stimulus to German productivity and therefore the creation of a greater export surplus.
4. They may help in avoiding such surplus being absorbed by the prior action of private German investment abroad. In this connection, the maintenance of the system of deliveries in kind, if not carried too far, may act in a manner to keep the transfer as large as possible and to give the Allies priority.

While, therefore, we recognize the necessity for the continuance of deliveries in kind, we think that unless they can be confined to natural products of Germany, such as those specifically dealt with in the treaty (coal, coke, dyestuffs, etc.), and in the second place to exports which do not entail the previous importation into Germany of a large percentage of their value, they tend to be uneconomic in character.

In the first two years of the operation of the plan

the available finance is so restricted that there will be an automatic limitation of deliveries, but in the later period the program must be carefully and periodically considered in advance by the Reparation Commission in conjunction with the committee referred to in Section XIII if exchange difficulties are to be avoided.

We refer below to the necessity of expending almost exclusively within Germany the sums available for treaty payments in 1924-25 and 1925-26. In these circumstances, the Allied Governments will doubtless consider whether it is not advisable to continue the system whereby the costs of armies of occupation were a first charge upon the proceeds of deliveries in kind made to the Governments which maintain the armies.

Where we have referred to payments for deliveries in kind in this report we have intended to include therein payments in Germany arising through the operation of the reparation recovery acts.

XII. HOW THE PAYMENTS ARE TO BE MADE

All payments for the account of reparations (whether from interest and sinking fund on railways or industrial debentures, the transport tax, or from the budget contribution) will be paid in gold marks or their equivalent in German currency into the bank of issue to the credit of the "Agent for reparation payments". This payment is the definitive act of the German Government in meeting its financial obligations under the plan. It is easier to estimate the burden that Germany's economic and fiscal resources can bear than the amount of her wealth that can be safely

transferred abroad, and it is the former and not the latter that has formed the first objective of the committee.

XIII. HOW THE PAYMENTS ARE TO BE RECEIVED

The use and withdrawal of the moneys so deposited will be controlled by a committee, consisting of the agent for reparation payments (a coordinating official under the Reparation Commission, whose position and duties are defined later in this report) and five persons skilled in matters relating to foreign exchange and finance, representing five of the allied and associated powers. This committee will regulate the execution of the program for deliveries in kind and the payments under the reparation recovery act, in such a manner as to prevent difficulties arising with the foreign exchange.

They will also control the transfer of cash to the Allies by purchase of foreign exchange, and generally so act as to secure the maximum transfers, without bringing about instability of currency. Fuller details as to their functions will be found in Annex 6. If the payments by Germany on reparation account, in the long run, exceed the sums that can be thus transferred by deliveries or by purchase of foreign currencies, they will of course begin to accumulate in the bank. Up to a certain point, in normal circumstances not exceeding two milliards, these accumulations will form part of the short-money operations of the bank.

Beyond this point, the committee will find employment for such funds in bonds or loans in Germany under the conditions laid down in the annex, but, for

economic and political reasons, an unlimited accumulation in this form is not contemplated. We recommend that a limit of five milliards be placed upon all funds accumulating in the hands of the reparation creditors in Germany. If this limit is reached, the contributions from the budget are to be reduced below the standards set out in our plan, so that they are not in excess of the withdrawals from the account and the accumulation is not further increased. In this contingency, the payments by Germany out of the budget and the transport tax would be reduced until such time as the transfers to the Allies can be increased and the accumulation be reduced below the limit named.

We do not deny that this part of our proposal will present difficulties of a novel character which can only be solved by experience. But what are the alternatives?

In order that no difficulties with exchange or stability can possibly arise, the sum payable for reparation may be definitely fixed at such a figure as is certain beyond all doubt to be within Germany's capacity to export in excess of her imports. In this case the attainment of such certainty would involve so low a figure as to be quite unacceptable to her creditors and unwarrantably favorable to Germany.

On the other hand, the liability may be fixed without regard to that excess of exports at all, and the discharge of the liability left to uncontrolled events without any possible regard to exchange difficulties. That way lies future instability and disaster.

We are convinced that some kind of coordinated policy, with continuous expert administration in regard

to the exchange, lies at the root of the reparation problem and is essential to any practicable scheme in obtaining the maximum sums from Germany for the benefit of the Allies.

XIV. GUARANTEES IN ADDITION TO RAILWAY AND INDUSTRIAL BONDS

It is plainly not enough to demonstrate the feasibility of raising the sums under consideration. It is desirable, in the common interest, that means should be devised for securing that the possible surplus is actually established. The greater the extent to which payment may be rendered automatic and a matter of habit and independent of fluctuating political attitude toward reparation, the less will be the friction and the greater will be the real stability of the German budget. In the last resort the best security is the interest of the German Government and people to accept in good faith a burden which the world is satisfied to be within their capacity, and to liquidate as speedily as possible a burden which is and should be onerous.

Creditors, however, are not usually satisfied with a moral security, and experience and the present condition of Germany's finances are such as to reinforce their natural desire for tangible and productive guarantees.

These are no less vital in the interest of Germany herself, who will be relieved of a large part of her political troubles if the main source of political controversy is removed by a system which no longer makes the payment of reparation depend upon the constant maintenance or renewal of governmental decisions.

In particular, it is vital in the interests of our scheme, which depends for its success on the assured belief of the whole world in the regular observance of a settlement once made.

On the other hand, we do not hesitate to reject as undesirable, for the purpose which all have in view, save in certain extreme events, any system which would involve directly or indirectly the virtual control of all Germany's revenue and expenditure. It would involve the controlling authority in responsibility for all financial troubles, and it might be a pretext for them.

The use of this safeguard general budgetary control should be reserved for the case of Germany's wilful failure to meet the obligations now laid upon her.

If, as we believe, the payments which we have suggested can be made without compromising budget stability, it is in our opinion not impossible to establish a system under which a combination of self-interest and latent pressure will suffice to assure sound financial administration. We believe that the object can be attained if, without in any way impairing the first charge which now exists in favor of reparation on all Germany's assets, certain specific revenues are assigned to, and under the control of, Germany's creditors. These revenues will furnish a collateral, but not a primary, security and we suggest that they should be the taxes on customs, alcohol, tobacco, beer and sugar. We propose for this purpose that they should pass directly into the hands of an impartial and effective control ; that the treaty payments should first be deducted by the controlling authority for the account of the Allies ; and that Germany should only have the use for her own purposes of such balance as may remain.

We believe that this system contains the greatest degree of effectiveness without involving the Allies in the onus of responsibility for any breakdown in the execution of the plan.

We recommend that the control should be instituted forthwith in spite of the fact that the budget supports no peace-treaty charge in the year 1924-25.

We make this recommendation for two reasons : Germany, by instituting this control, puts this part of the plan into execution in a definite and public manner, and in the second place early action will insure that control is in effective operation at the moment when part of the revenues is retained by Germany's creditors.

We would add that while leaving untouched the existing alcohol monopoly, we do not, in view of reports received from technical experts, propose the transformation of consumption duties into new monopolies, though we recommend certain important new regulations with regard to the sale of tobacco.

CONTROLLED REVENUES—THEIR YIELD

The estimate made by the German officials of these revenues for the year 1928-29, exclusive of customs, was 1,700,000,000 gold marks.

The technical advisors specially consulted by the committee have estimated the yield at 2,146,000,000 gold marks.

There is every prospect, therefore, that the assigned and controlled revenues will give a large margin over the treaty-charge payments, even in the standard year, of 1,250,000,000 gold marks. The revenues are a

security for a payment otherwise fixed. This principle renders possible a system of control which, while equally effective, is much more simple in operation, and is strengthened by the association of Germany's self-interest. Once the treaty charges are met she is entitled to the whole balance and therefore she has the fullest inducement to increase the yield. But she can touch no part of the revenues in a given period until the treaty charges are fully met ; so that every increase operates in the first instance to increase the Allies' security.

We have suggested above that in the years 1926-27 and 1927-28 the amount of reparation to be paid should be dependent to some extent on the yield of these particular revenues. In order that there may be no misunderstanding, we desire to state clearly that in our opinion this arrangement should be strictly confined to the two years in question and be regarded as exceptional.

We believe it to be of the greatest importance that the revenues should normally be regarded strictly as security, and should not be relied upon in the ordinary course as the determinant of the actual sum to be paid as reparation. In particular, if the yield of the revenues exceeds the amount to be secured, the excess should accrue to the German Government. Our reasons for holding these opinions are more fully stated in Part II.

XV. EXTERNAL LOAN—ITS CONDITIONS AND PURPOSE

An integral part of our scheme is the issue by Germany of a foreign loan of 800,000,000 gold marks ;

this loan is primarily essential for the successful establishment of the new bank and to insure the stabilization of the currency. The deposit of this amount in the new bank will be an important and necessary contribution to its gold reserves and enlarge the basis of its currency issues. It will thus be enabled in the second place, without impairing its usefulness for the above, to play an important part in solving the problem created by Germany's immediate and more urgent obligations to the Allies which do not necessitate the transfer of money abroad.

We have already stated our conclusion that Germany should not be called upon in the years 1924-25 and 1925-26 to provide for any treaty charges out of ordinary budget resources, and we have deferred to this point indication of means by which a complete suspension of payments may be avoided.

The current liabilities of Germany under the treaty other than liabilities for cash payments in foreign currencies, comprising the most essential deliveries in kind, and costs under a number of other heads, are known to be considerable. Although their precise amount is not easily determinable, they aggregate to a large amount and if no arrangement is made for meeting or reducing them they form a formidable obstacle in the way of a complete solution.

In the year 1924-25, the extra-budgetary resources can be relied upon to provide 200,000,000 gold marks, being interest on railway bonds. The question arises whether a further sum can be provided.

We first considered whether Germany would have sufficient credit at the outset to meet the full amount

of her charges by loans or capital assets. In our view, it is impossible to say that she could obtain funds, until her position is well established, adequate to discharge them. But it does not follow that the most pressing of the demands cannot be met, for a considerable sum can certainly be raised upon the good security that the plan provides, with a clear prospect of improved international political position and of stability. The question is, therefore, whether the claims upon Germany can be so reduced by agreement among the Allied creditors as to come within this potential credit. If they can, then obviously the greater the reduction, the more moderate the sum to be raised and the greater the probability of Germany successfully raising a loan. If not, then the loan will not be forthcoming, stability cannot be insured, and neither this plan nor any other can come into being. The successful launching of the scheme depends therefore upon three main factors :

(a) Limitation of payments for all purposes, to 1,000,000,000 gold marks of which at least 800,000,000 must be spent in Germany for the first year, and thereafter to such sums as are available under the plan during the succeeding years ;

(b) Cooperation between the Allies and Germany in securing political conditions which will incline the investors of the world favorably toward the German loan upon good security ; and

(c) A loan of 800,000,000 gold marks which will serve the double purpose of assuring currency stability and financing essential deliveries in kind during the preliminary period of economic rehabilitation.

It will be seen that under the plan, among the

different revenues available, ample and sufficient security could be found to form the basis of such a loan, both as to interest and sinking fund.

Obviously, the first loan should be fully secured, but it is equally true that it is neither in the interest of a first loan nor of the Reparation Commission to create a situation which would prejudice the flotation of subsequent German loans or the realization of the capital assets provided for in the plan.

The amount required for the service of this first and any subsequent loans must be deducted from the sums which in subsequent years can, in accordance with our plan, be placed at the disposal of Germany's creditors. In effect the loan is only an anticipation of the sums subsequently available which, it is necessary to emphasize, represent in our opinion the maximum burden and therefore one not capable of increase.

It is not for us to offer suggestions as to the priority of claims or how the sums should be distributed. On this aspect of the matter we confine ourselves to stating that in the interest of currency stability and to aid the successful inauguration of the new bank, the proceeds of the loan should be used exclusively for financing internal payments, such as deliveries in kind (whether direct or by the operation of the reparation recovery act), and that part of the costs of the armies of occupation which represents expenditure in Germany by or on behalf of these armies. But we do assert that, if, as we believe, Germany's credit will be good enough to float such a loan, it is natural and necessary that her credit should be employed to ease the burden on her creditors during the period of her own recovery.

In the year 1925-26 the problem is somewhat different in character. The reasons which make a foreign loan essential in the first year should have disappeared. If confidence is in process of re-establishment a large reflux of capital to Germany is to be expected. People, whose object in transferring money abroad or in hoarding foreign notes within Germany has been simply to insure against further loss, will, to a great extent, reconvert this capital into German currency. Other things being equal, the German currency and exchange situation will continue to improve, a phenomenon which has been clearly exhibited in the last twelve months in Austria.

The exchange position of Germany will, therefore, be relatively strong and her budget position relatively weak. In the few succeeding years the position will be exactly reversed ; the exchange will become normal, but weaker than during the abnormal period of reconstruction, while budget resources should be enormously strengthened.

In view of these facts, we see no danger, and perhaps positive advantage, in requiring that during 1925-26 deliveries in kind and that part of the costs of the armies of occupation spent in Germany by or on behalf of the armies should be financed up to 1,220,000,000 gold marks by sums raised in Germany itself.

The above sum is made up of (1) railway interest, partly carried over from the first year, amounting to 595,000,000 gold marks ; (2) the transport tax to the amount of 25,000,000 gold marks ; (3) interest on industrial debentures amounting to 125,000,000 gold marks ; and (4) 250,000,000 gold marks from the budget provided by the sale of railway preference

shares belonging to the German Government. If for any reason the whole of the above sums are not provided, the balance should be raised by a German internal loan.

XVI. ORGANIZATION

The committee's plan provides for a commissioner of the bank of issue, a commissioner of railways, a commissioner of controlled revenues, the last-named to have under his control a certain number of sub-commissioners severally intrusted with the special revenues under consideration, and, if the need arise, for a commissioner of industrial debenture.

The plan also provides for an agent for reparation payments.

In order that the machinery thus set up by our plan may function properly, both in relation to the Reparation Commission and in its German environments, there must be an agency between the Reparation Commission and the various commissioners. We suggest that this coordinating agency devolve upon the agent for reparation payments.

The commissioners would retain all responsibility for the carrying out of the task intrusted to each, only subject to such coordinating policies as may prove necessary in order to avoid any duplication of effort, overlapping of functions, unnecessary friction, and generally all interference with the harmonious working of our plan.

In case of a difference of opinion between one commissioner and the "Agent-General for Reparation Payments" in his capacity as coordinator, the commissioner can appeal to the Reparation Commission.

The existence of this right of appeal will have a salutary effect upon the relations of the coordinating agency and the different commissioners.

To facilitate the interchange of information which will develop a situation in its entirety for appropriate action a general coordinating board is also suggested in which the various commissioners or representatives named by them will participate together with the "Agent for Reparation Payments" and the trustee. The coordinating board is to have advisory powers only and is for the purpose of giving information to the Agent-General to assist him in preparing coordinating orders.

These suggestions are naturally far from exhausting this important subject, one of the most important of our plan. They are laid down simply as an indication, as the drafting of the rules for such a coordination will devolve upon the Reparation Commission so far as they have power, and upon the various Governments.

Rules should be laid down for the rendering of periodical reports and for the publication of such as the public interest may require.

We desire, however, to record in this connection that the expense of the new machinery provided for by the plan can and should be contained within limited amounts and in any case be included in the annuities already contemplated.

Trustee.—The plan also provides for the appointment of a trustee with the following duties :

He will receive and administer the railway and industrial bonds and will be accountable to the Reparation Commission for these and all other securities.

He will insure the service (interest and amortiza-

tion) of the railway and industrial bonds by means of funds remitted to him for this purpose by the agent for reparation payments.

He will fix the conditions of the amortization of the bonds and if necessary the redemption at par of all or a part of the bonds not yet amortized, by means of any supplementary payments which may be made by the German Government, the railway company or industry.

With the authorization of the Reparation Commission and for its benefit, the trustee may sell the bonds which he holds, and may use the mortgage bonds and deeds which he holds to secure new securities which he may himself issue.

Both the agent and the trustee should be appointed by the Reparation Commission.

In framing the organization of control, the committee has adopted as fundamental the principle that, if the plan is to yield the best financial results, it is desirable that control should be of such a nature as not to involve the assumption of responsibility by the commissioner for German administration, though the committee recognize that this principle cannot be adhered to in case default under the plan arises.

XVII. THE NATURE OF THE PLAN

In concluding this part of our report, there are several points which we desire to emphasize.

In the first place we regard our report as an indivisible whole. It is not possible, in our opinion, to achieve any success by selecting certain of our recommendations for adoption and rejecting the others, and we would desire to accept no responsibility for the

results of such a procedure nor for undue delay in giving execution to our plan.

In the second place, as we have remarked earlier, our plan is strictly dependent upon the restoration of Germany's economic sovereignty, and it is important to observe that the operation of the plan will be proportionately postponed if there is a delay in effecting that restoration. The various dates which we mention in the report must be interpreted in the light of the above remark.

From the standpoint of the taxpayer in creditor countries the plan means in due course an annual relief to the extent of $2\frac{1}{2}$ milliards, plus such additional amount as the index of prosperity may provide.

On the other hand from the standpoint of the taxpayer in Germany the plan means a direct burden of only one-half this sum, viz. $1\frac{1}{2}$ milliards per year, and the transport tax, plus such additional amount as may represent only a relatively small share in increased prosperity. The German taxpayer can look without anxiety upon the remainder of the payment of $2\frac{1}{2}$ milliards, for it represents a relatively small burden on German industry, which has been the beneficiary of substantial special profits, and only a modest return on a large capital invested in railroads which are yielding him no relief in taxation in his budget at present, such capital having been accumulated prior to the war. We are satisfied that the contributions from railway and industrial debentures will not be reflected to any substantial degree in a burden to the individual German taxpayer ; as regards the railways, it will only require the same kind of return as exists in similar enterprises in many countries.

Our purpose has been to set up a machinery which will secure the maximum payment which Germany can make in each year in her own currency. We do not speculate on the amount which can annually be paid in foreign currency or on Germany's capacity to make a total payment.

The committee is confident that it lies within the power of the German people to respond to the burdens imposed by the plan, without impairing a standard of living comparable to that of the Allied countries and their neighbors in Europe, who are likewise subject to heavy burdens, largely resulting from the catastrophe of the war.

We have not concealed from ourselves the fact that the reconstruction of Germany is not an end in itself. It is only part of the larger problem of the reconstruction of Europe.

We would point out finally that while our plan does not, as it could not properly, attempt a solution of the whole reparation problem, it foreshadows a settlement extending in its application for a sufficient time to restore confidence, and at the same time is so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible.

PART II

I. THE CURRENCY POSITION

The conditions at the outset of our inquiry.—When we started our investigations the value of German currency had been stable for some two months. It would not have been pretended, however, by any authority that German currency had been stabilized. It would perhaps be juster to apply the term “unstable equilibrium” than the term “stability” to this transition period, which has fortunately continued to the present day. The elements of permanent stability, even if the repercussions of the budget situation are momentarily left out of account, were then and are still wanting.

One of the first steps which the committee took was to request Doctor Schacht, the governor of the Reichsbank and the currency commissioner of the Reich, to give evidence before them with a view to their being fully informed of the existing currency situation.

Quantity of currency.—The total circulation, although so enormous in nominal values, was, when reduced to its gold equivalent at that date, something over 3 milliard gold marks only, whereas the pre-war circulation in Germany had amounted to 6 milliard gold marks. Prima facie, therefore, the amount of currency seemed deficient rather than excessive, and not likely in itself to be a cause of further depreciation. In proportion as the German mark dwindled in value and became less and less utilizable for the threefold function of standard of value, instrument of payment

and medium of saving, foreign currencies naturally became, by force of circumstances, more and more sought after in Germany. The Germans resorted increasingly to the currencies of countries with a comparatively stable exchange, not only to invest their savings, but also to define and even settle their transactions, and the presence of such currencies in Germany increased ever more as the mark depreciated further.

In spite of this extended use of foreign currencies in Germany, the shortage of purchasing power made itself increasingly felt, leading first the German Government, then the States and municipalities, and finally the great industrial and agricultural organizations and even private firms to supplement the currency shortage by new instruments of payment. These token currencies, expressed in gold or paper marks, sprang up in Germany in the summer of 1922 at a moment when the need became urgent to find new means to meet the requirements of current transactions, the old mark on the verge of its collapse no longer answering such requirements.

At the end of 1923 we find in Germany an absolutely heterogeneous monetary circulation which included—besides the foreign money in circulation or hoarded (dollars, pounds, florins, gulden, Swiss francs, French francs, Scandinavian crowns, etc.)—the old paper marks, dollar treasury bonds (Dollarschatzanweisungen), bonds of the gold loan (Wertbeständige Anleihe), 6 per cent Treasury bonds (6 per cent Schatzanweisungen), rentenmarks, and, lastly, a whole set of odd emergency currencies (Notgeld) expressed either in gold or in paper marks.

Backing.—The security of the rentenmarks is a

mortgage on real, and to some extent on personal, property. The so-called gold loan is repayable in legal tender on a gold basis but has no gold backing. The various forms of emergency money were for the most part based on no security at all. The gold reserve of the Reichsbank amounted to some 467,000,000, but 200,000,000 thereof was specifically earmarked as security for the dollar loan issued by the Reich in 1923.

Taken as a whole, therefore, the liquid backing of the currency is wholly inadequate for a permanent system.

Interchangeability.—The rentenmark is not actually legal currency within the country nor available for any purposes of foreign trade. The old currencies with their vast denominations remain the legal currency, but prices are everywhere expressed in rentenmarks. It is therefore obviously necessary that payments should be made indifferently either in Reichsmarks or in rentenmarks at a fixed relation between them. The Reichsbank accordingly accepts rentenmarks at the rate of 1 rentenmark for 1,000,000,000,000 paper marks, and rentenmarks are also accepted in payment of taxes at the same rate.

Annex 7 to the present report shows in some detail the curious monetary situation in Germany at the end of January last.

The present tranquillity.—As the committee have remarked, the elements of currency stability were not to be found in such a situation. The temporary equilibrium of the German exchange has been ascribed to various causes by different authorities ; some lay stress upon psychological factors, and in particular a renewal of confidence, the exact basis of which it would

be difficult to determine, but which took account of the efforts being made by the German Government to balance its budget, and of the appointment of the Committees of Experts by the Reparation Commission ; others refer to a decrease in internal consumption which with the lack of credit, accompanied by what was probably an excessive restriction in importation, reduced the demands both for the circulating medium and for foreign currencies.

Credit facilities.—The exportation of the rentenmark is prohibited. Its existence was of no assistance in the maintenance of foreign trade. The Reichsmark was too discredited to be any longer available for the purpose of meeting foreign obligations. Credit was only obtainable abroad at dangerously high rates of interest.

At the same time, the currency depreciation and its secondary effect had produced a serious dearth of liquid capital in Germany itself. The stringency may be indicated by the fact that (according to figures furnished to us) the savings bank deposits had fallen from 10,700,000,000 at the end of 1913 to 760 gold marks at the end of 1922 ; the credit accounts in the eight large Berlin banks amounted to 7,400,000,000 at the end of 1913 and to about 1,000,000,000 at the end of 1922. The figures for 1923 are not yet available but can scarcely exhibit an improvement. Leaving for the moment out of account capital which in one form or another had been exported, liquid capital in monetary forms liable to depreciation had been steadily converted into fixed assets with a permanent intrinsic value. The private individual had purchased consumable commodities, while industrial enterprises had largely extended their plant and equipment. The

motor was in good, perhaps in unusually good, condition, but the motive power and lubrication were apparently lacking.

Immobile credit resources.—On the other hand, there was general agreement that not inconsiderable resources were available in the shape of German balances abroad and foreign currencies in the pockets of the population in Germany itself. This latter item alone has been estimated at 1·2 milliard gold marks by the committee appointed to consider the means of estimating the amount of German exported capital. It was reasonable to suppose that a large proportion of these resources would be available if complete confidence in the stability of German currency could be restored and maintained.

As stated in Part I, the committee consider that this end can best be secured by the institution under proper safeguards of a new bank which should absorb the existing currencies, liquidate the rentenbank and transform the Reichsbank, and provide, against recognized banking coverage, the foreign currencies necessary for the revival of Germany's languishing trade. The plan for this bank is given in Annex 1.

Psychological considerations seem imperatively to require an institution which should be so far new in its policy and its administration as to detach it entirely from the errors of the recent past and restore the older traditions of German banking.

The interim bank.—While coming to this conclusion and while reducing the general plan to details, the committee had to deal with an actual change in the situation as it originally presented itself. The committee were informed that a scheme for a gold bank

was in preparation. It was expressly and admittedly limited to providing the means of carrying on foreign trade. When first submitted it contained some features which the committee would not have recommended, and it omitted others which seemed to the committee to be essential to any permanent settlement of the problem as a whole. Moreover, an attempt to settle particular difficulties in isolation and without reference to other essential requirements appeared to the committee to involve certain risks.

The committee, therefore, without expressing any opinion on the plan as given to them in outline, assured themselves in consultation with the authorities responsible for Germany's monetary policy that the bank would be so organized as to facilitate its absorption into a new bank of issue which might be set up in accordance with the recommendations of the committee.

II. CONSIDERATIONS REGARDING THE MEASUREMENT OF GERMANY'S BURDEN

(a) COMMENSURATE TAXATION

In Part I we refer to the fact that we have taken full account of this principle. But it is necessary for us to make some further observations thereon.

The principle of the "commensurate burden", as it has been called, unimpeachable in abstract statement, is exceedingly difficult to translate into quantitative measurement as a basis for practical action. While obviously sound and just, it does not easily admit of precise and arithmetical calculation. What at first sight seems to be a simple conception, on

examination is found to be complex and in some respects not reducible to exact definition.

Now the ordinary expenditure which has to be provided for in the German budget is reduced, in part, by the restriction upon her military preparations, but above all by the practical extinction of her internal debt.

If Germany had sustained the burden of her own debt, as the Allies have done, and not obliterated it by inflation, she would have had to raise $4\frac{1}{2}$ to 5 milliards per annum in addition to her domestic expenditure.

This would make it both just and practicable to add a provision in her budget which should bear some correspondence to the provision made in the Allies' budgets for their war expenditure.

But the raising of any particular sum from one section of her inhabitants, to be paid back to another section within her borders, is a "burden" in a different sense from the payment of such a sum by the whole population to people abroad—different in more than the economic sense—and it is difficult to bring such a task into direct relation with the problem of reparations. It is a measure of what individual taxpayers, rather than a nation, may be capable of bearing.

In the first case the interest paid forms a part of the national income, as it is expended it provides profits and a stimulus for internal trade and so increases further the income of the country, and in particular it is itself an important source of internal taxation.

A payment in respect of a debt to foreigners has no comparable advantages to the country making it. The extinction of the German debt has after all been

at the expense of her own nationals, who are her taxpayers ; they have sustained as holders of German bonds, not only the burden which they have already escaped as taxpayers, but that which they would have borne in future years to meet the service of the internal debt if its value had not been destroyed by depreciation. The process of extinction has indeed (except in its incidence as between different individuals and classes) had the same results both to the treasury and to the German taxpayer regarded collectively with a capital levy devoted to debt extinction.

The loss incurred by individual holders of debt is exactly offset by a corresponding profit accruing to the taxpayers as a whole.

It renders both practicable and just a greater charge for other war debts than would otherwise have been possible. A large proportion of the richest taxpayers of the country have obtained the relief without themselves sustaining the cost. They are a proper source of taxation commensurate with that weighing upon the corresponding classes in allied countries and in particular upon the industrial classes. To them as individual taxpayers a tax is a tax whether its ultimate destination is the payment of a war debt due to fellow citizens or to foreigners. And under the system we propose it may be regarded as a tax in internal currency without the complications which result from the question of how sums so received can be converted into foreign exchange. For this special problem we provide special safeguards. The German taxpayer should regard a payment in respect of war debt exactly as an allied taxpayer regards a similar payment. Its ultimate destination need not concern him,

and is certainly no justification for him to attempt to evade it.

The facts as to the burden actually being borne by the Allies for debt service are perhaps a better approach to the actual problem. If the German burden per head for debt were as onerous as the burden for debt existing upon the inhabitants of Belgium, France, Great Britain, and Italy taken together, then the German debt charge would approximate to 6 milliards. But in this case, again, the charge is to a considerable extent in the nature of a redistribution of annual wealth among the members of each nation and has little relation to the problem of a national burden in the collective sense.

In the third place, it may be said that if the German people were burdened as heavily as the members of the most heavily taxed of the Allied countries are taxed for all purposes, *excluding debt charge*, we should have an expression of the commensurate burden principle in a limited and strictly defensible sense. But even here theoretical and practical difficulties prevent exactness.

In the search for the "commensurate" it is not enough to compute the burden as a per capita charge, it must be related to per capita wealth or income; it is considered by many that justice requires a "minimum of subsistence" to be first deducted from such per capita income; the amount of the minimum is not exactly determinable and it seems to vary as between different countries of different climates, different economic development and different customs, *e.g.*, as between Spain and the United States; it may even vary between different periods in the same country.

As a rough working assumption, such a minimum may be regarded as varying in proportion to the per capita income of different countries. Furthermore, over any period of time this burden per head in the allied countries must change and what might be a valid comparison to-day in taxation in those countries may be quite different in 10 years' time. The comparison of statistics of total taxation, national and local, in each country presents many technical difficulties. Moreover, statistics of total national income and income per head are at present either very defective or wholly lacking. Notwithstanding these difficulties it is possible to compute roughly what total budget charge would be borne by the German people if they were subject to taxation (central and local) on the same scale per unit of income as in Great Britain, and by deducting from the result the necessary domestic expenditure to derive an arithmetical balance which could be, theoretically at any rate, assigned to the payment of reparation.

Combining these various aspects, we have reached the view that the "commensurate burden" principle for Germany, when she is fully restored to economic prosperity, would more than justify all the practical conclusions we have set down and that they are in every way morally defensible.

There are, of course, good reasons of a political, economic and psychological character for confining the actual requirements of budget accumulation within Germany to limits well below the figure that would be arrived at from the consideration of this principle by itself. Different individuals will differ in the degree of importance they assign to such reasons. It

is perhaps unnecessary to state these aspects in detail and sufficient to register our united conviction that all our recommendations and suggestions are well within what can be morally justified on the principle of "commensurate burden", whatever limitations may be placed upon that principle. In this sense, therefore, the justice and moderation of our proposals ought to be fully recognized by the German people themselves.

In the above discussion we have disregarded the question of railway profits. Inasmuch as budget revenue is not derived from profits on railways elsewhere, no question arises as to whether railway profits are a burden (in the sense of a tax). Such profits in other countries form a part of the ordinary profits of private concerns accruing to individuals, and it may be said therefore that in Germany the position of the taxpayer is the same, whether such profits go to individuals or to the Allies as reparation.

On the other hand, the German railway profits might go in relief of taxation burdens if they were not applied to reparations. Moreover, it is difficult to say that the abstraction of the profits of so important an undertaking as the railways of a country from that country, instead of leaving them there to be enjoyed individually or collectively by the inhabitants, is not a "burden" in the international sense, even if it is not a part of the individual *commensurate burden of taxation*.

(b) EXPORT STATISTICS AS AN INDEX OF PROSPERITY

In Part I we have suggested an index of prosperity and indicated that in our opinion it was a fairer test than the existing index, namely, export statistics. The

use of the latter in isolation has certain definite defects, to some of which we desire to draw attention.

1. Foreign trade only covers part of the area of total trade, and if foreign trade at a given moment only covers a small part of the area, total trade may be moving in a direction opposed to that of foreign trade.

2. Artificial conditions, such as alterations in transport charges, may affect the trade figure in the absence of any real change in the value or volume of exports.

3. The export statistics, more especially when no export duty is in force, may be subject to changes in presentation and frequently furnish material for controversy.

4. Reparation payments themselves are, and can only be, financed by an excess of exports. It follows that an increased reparation payment in one year furnishes an increased base for the following year. This process is cumulative, and the basis for the index is continuously raised, so to speak, at compound interest, even though actual prosperity may be stationary.

5. In a country with an economic life such as that of Germany invisible exports may increase more rapidly than physical exports, and there may be a growing prosperity which is not reflected in export statistics.

(c) MEASUREMENT BY YIELD OF PARTICULAR TAXES

We have laid some stress in Part I on the fact that certain revenues were chosen strictly as guarantees and that fluctuations in their yield were not to be

regarded (save in 1926-27 and 1927-28 exceptionally) as determining the payments due by Germany. The following are the broad principles justifying this standpoint :

1. It is desirable that the German Government and the German people should be themselves interested in increasing the yield of the controlled revenues, and should be under no temptation to discriminate against these taxes in favor of others.

2. The year's liability, which under our plan includes an allowance for increased prosperity, will already have been established by one test, in which, moreover, the yield of the controlled revenues indirectly forms one element. Having applied one test, it would be unfair to apply a second and to choose whichever gives the higher result.

3. The year's liability ought not to vary with the fortuitous yield of particular taxes. The character and level of these taxes should be chosen with a view to their suitability as security and not with a view to their appropriateness for fixing obligations.

Unless the liability of the year is definitely fixed and unless the German Government can proceed to estimate its resources by reference to the whole and not part of the taxable field, the difficulties of forming a satisfactory budget are aggravated and German credit is affected.

4. Common sense requires that the reparation liability ought not to rest even indirectly upon the rate of particular taxes, or otherwise every change in rates or methods of collection, even when thoroughly justified by social or political reasons, must be scrutinized with such a degree of care and perhaps

suspicion that it becomes a fruitful source of friction and dispute.

III. THE GERMAN BUDGET FOR 1924-25, AND THE FISCAL SYSTEM

The 1924-25 budget.—The German Government prepared and submitted to us the outline of a provisional budget for 1924-25 which estimates a small excess of receipts over the ordinary administrative charges of the country. (Annex 8.)

While the committee have spent a great deal of time upon the details of this budget, and have put many questions in writing to the Government and in oral cross-examination of the officials upon its chief features, the subject is so vast in its ultimate implications, especially having regard to the constitution of the Reich, that no finality could possibly be reached, especially in a matter which to the Germans themselves is full of difficulty and doubt. Nevertheless, we believe that the ground has been explored to a sufficient extent to justify us in feeling that even a prolonged examination could not substantially alter our conclusions. To some of the more salient points we shall make particular reference.

The conditions under which the budget estimates were made.—It should, however, be first remarked that in general the budget must necessarily be in the nature of an experiment and the individual items in it somewhat arbitrary estimates. At the time of our investigation Germany was passing through an acute economic crisis, the direct result and the culminating point of a depreciation of the currency so catastrophic

as practically to destroy the currency and reduce the budget to all but a shadow. The habit of saving has been destroyed, and it will require time and the restoration of confidence to re-establish it. The existing wealth is maldistributed in an almost unparalleled degree. The cessation of depreciation, with the consequent removal of the premium on export and the stabilization of prices at a level which is momentarily at any rate above that of the world level, has had important reactions. Finally, the state of employment and the fiscal and economic machinery of Germany have been violently deranged by the events of 1923 ; a return to normal conditions in this respect cannot be effected overnight.

Assumption underlying the budget.—It should be most carefully noted that the budget is not made up to represent the financial expectations of actual existing conditions. As we have remarked above, the general budget as presented anticipates a credit balance, and the German Finance Minister appeared to be reasonably confident of his ability to live up to these estimates, provided three essential conditions were fulfilled :

1. That the bank of issue which would serve as a basis for the grant of credits would be established.
2. That the full development of German economic life should not be restricted by the severance of the Ruhr and the Rhineland.
3. That Germany enjoyed complete freedom in her economic relations with other countries.

The first and second of these conditions will be fulfilled if our recommendations are accepted, and they appear to us to be essential to budget equilibrium. As regards the third, we understand that Germany's

commercial freedom is restored under the terms of the treaty in less than twelve months' time.

We are not, however, satisfied that the budget as framed is not exposed to a real risk of deficit. The German fiscal year begins on the 1st of April and even if our recommendations are accepted a certain lapse of time will be necessary before an absolutely normal administrative situation can be re-established.

For this, if for no other reason, we conclude that on the existing basis of taxation the estimated revenue may not be realized, even allowing for certain possible under-estimates under particular headings.

On the expenditure side, the only item on which a saving may emerge of any great significance relatively to the possible deficit is the provision of relief for unemployed. The sum allocated to this purpose (500,000,000 gold marks) is estimated on the assumption that the existing amount of unemployment will continue throughout the year. It appears to us that this is unduly pessimistic and any reduction in the number will both relieve the expenditure and the revenue side of the budget, inasmuch as the wages earned by a laborer are subject to direct, and through the medium of his expenditure, to indirect, taxation.

Taking one item with another, however, we cannot justifiably state that the results are likely to be any better than have been indicated in their estimate. But if, for this year 1924, there was a deficit (we have just seen that this possibility cannot be absolutely disregarded) we can assert that it would not be of an extent to endanger the stability of the currency, or force the German Government to have recourse to other than the conventionally authorized expedients

for meeting it, such as increases of existing taxation, further emergency taxes, or small internal loans.

Moreover, so many of the settlements due in the year 1924 will fall to be made in the year 1925-26, that fiscally these two years tend to be merged into one period, and, as will be seen later, we have no doubt that in that period ordinary budget receipts will fully equal ordinary budget expenditure.

Special features in the fiscal system.—The Income Tax.—We do not propose to comment in any detail on the existing taxes, but there are certain broad features which call for notice.

We have been unable to escape the conclusion that the wealthier classes of Germany have, in recent years, not been reached properly by the system of taxation in force, either to an extent which the taxation of the working classes would justify, or to an extent comparable with the burden upon the wealthier classes in other countries.

It is, of course, common knowledge that, with a continually depreciating currency, many classes of business men tend to obtain as profit a larger share than is normal of the total produce of industry. Many of their expenses are in the nature of fixed charges ; moreover, generally speaking, paper-mark wages have not advanced as rapidly as paper-mark prices have increased, so that the share of the business proprietor in the total produce of industry, altogether apart from the special profits made by him on redeeming debentures or mortgages at nominal figures, has tended to be greater than is normal.

Direct taxes, such as income tax, are necessarily assessed for completed periods and during a time of

rapidly rising prices the burden of any particular year, based on the profits of previous years, is small relatively to the profits of the year itself. Moreover, the process of return, assessment, and appeal, for such a tax, necessarily occupies further time and by the date when substantive liability is fixed in paper marks its real burden is far less than was originally intended. Further delay in payment of that liability intensifies this effect. It was not until the inflation movement was well advanced in Germany that any serious effort was made to combat this evil. Although the rates of income tax according to the nominal scales rose to nearly 60 per cent on the highest incomes, statistics of cases furnished to us by the German Government show that in effect, even in the year 1920, the burden of actual tax (measured in gold) on the higher incomes, instead of being 50 to 60 per cent, was only half those rates upon the income of the year (measured in gold). This was undoubtedly one of the primary causes for the budgetary difficulties of Germany, and the disparity was very much greater in the later periods. It can be said with confidence that the wealthier classes have escaped with far less than their proper share of the national burden, and we have put it as a matter for the serious consideration of the German Government whether they should not, facing even the admitted administrative difficulties, review the assessments of recent years in the case of these particular classes of taxpayer and reassess their liability upon a gold basis.

The whole system of direct taxation went to pieces in 1923 and, for 1924, the income tax, as is easily understood, is in abeyance. The profits of industry

in 1923 expressed in nominal figures of paper marks have no meaning unless they can be resolved into the profits of the particular dates on which they were made and then reduced to a common denominator of gold values. A profit of 1000 marks made in January 1923 is obviously quite a different amount from 1000 marks made in September. We can well believe the German Government finds it impossible to use the year 1923 as a basis for income tax assessment in 1924.

They have been driven to temporary expedients of a very makeshift character, not rising to a higher normal burden than 25 per cent, with the intention of rescheming and reassessing the income tax proper in 1925.

These expedients do not reassure us upon the general question as to the taxation of the wealthy classes, and, in our judgment, if they desire the Allies and their own working classes to realize their good faith in this matter, the German Government should publish at an early date their definite intentions with regard to the scales of income taxation that are to be applied during 1925-26 to the actual profits of 1924-25 for the final adjustment of the fiscal year 1924-25.

The 1924-25 budget estimates 1,344,000,000 gold marks as the income tax yield, of which all but 480,000,000 gold marks is estimated to be assessed on wages.

We have drawn the German Government's attention to the absence in the temporary measures of any proper provision at present for dealing with income from abroad. They were asked to furnish us with details of the comparative position of different incomes

drawn from dividends in the years 1920-21, 1923-24, and 1924-25. The reply is given in Annex 9 as indicating the present position of direct taxation in Germany.

Special taxation on those who have specially profited by depreciation of currency.—Currency depreciation, on the scale it has occurred in Germany, has brought into existence a new and special type of “windfall” wealth which is a suitable subject for taxation in an emergency.

The ultimate profit or loss to industry and agriculture as a whole of the depreciation era may be difficult to calculate. There are many cases, however, of industrial and other undertakings which were not only able to make large profits but succeeded in paying off prior charges at a trifling fraction of their value when incurred.

If a mortgage or debenture of 10,000 marks has been paid off for practically nothing, a “windfall” profit to the debtor (at the expense of the impoverished creditor) has been made to that extent. If it has not yet been paid off, but the debt can in due course be discharged by worthless paper marks, the “windfall” is a potential one. In this last case, it has been decided by the German Government to “valorize” the debt at 15 per cent and the windfall to the creditor is to be restricted to 85 per cent. On this remarkable improvement in his position, the Government proposes to levy a tax of 2 per cent, or 1·7 on the whole debt. In the case where the debt has been paid off, the Government will take the actual difference between the gold price paid and 16·7 per cent. In our view, such special taxation, if justified in principle at all, as we believe it to be, is justified at much higher rates. But certain

rights of taxation are being given to the Federal States which encroach upon this area of taxation, and, for the rest, our proposals (Section IX (c) of Part I) in regard to industrial debentures cover what might otherwise have been independent recommendations under the head of taxation.

Similar extraordinary profits have been made through State subventions and through the repayment in depreciated currency of bank loans, State advances, and other similar obligations.

The Reich and the States.—The third special feature to which we would refer is the financial relation between the Reich and the States and communes.

The more complete financial centralization that took place after the war in accordance with the Weimar constitution has not fundamentally changed the character of the relations between the Reich and the States. Although the Reich is charged with the administration of taxes formerly undertaken by the States, it is under obligation to cede the major part of the proceeds of the income tax, for example, to them. The States discharge wholly or in part many of the functions of government, and there is no clear principle connecting their resources with their obligations. When in difficulties, they press the Reich for larger subventions (as percentage of the yield of taxation), just as in turn the needy communes press the States for greater financial aid.

The situation has hitherto been governed by merely political or administrative opportunism rather than by clear financial principle. The Reich can either yield to the pressure for higher percentages in subvention or they can confer upon the States the right

to exploit particular fields of taxation for themselves. The check by the States upon the communes is equally unsatisfactory. It is almost impossible to ascertain the true cost of any of the single functions of government in view of its division between these three constitutional entities, and in the absence of proper aggregated financial statistics of the States and still more of the communes.

The changes that have taken place completely falsify any comparison which could be established between the pre-war Reich budget and that for 1924-25.

Moreover, these relations are once more under review. During the period of rapid depreciation the resources of the States and communes, together with regular allocations from the revenues of the Reich, were inadequate to their needs. Their financial situation was similar to that of the Reich itself.

The expedient adopted by the Reich of multiplying the issue of notes was not open to the States and communes, who had necessarily to be supplied with continuously increased subsidies from the Reich, and this proceeding was one of the principal causes of the utter breakdown of the German finances.

The resultant chaos has been such that no up-to-date statistics are available, and the States have not yet framed their budget on a gold basis. It is, in our opinion, essential that at the earliest possible moment the preparation of complete statistics of the receipts and expenditure of the States and communes should be resumed.

The importance of the question may be seen if it is realized that the Reich budget, after allowing for

the subsidies, contains little more than one-third of the total expenditure, one-third being met by the States and one-third by the communes. It would be quite possible for the communal budgets to be enjoying considerable prosperity at the same time that the Reich budget is in serious difficulties.

We do not pretend to be in a position to make detailed recommendations ; the subject is a complicated one and involves the consideration of social and political factors, many of which have deep roots in historic traditions.

Moreover, if our recommendations are accepted in their entirety, self-interest alone may almost confidently be relied upon to force the German Government to make provident arrangements with the States, and it has already given us an assurance that the régime of increased subsidies has come to an end and will not be revived.

It is clear, however, that in the near future the German Government must take steps to put the relations between the Reich and its component parts on a regular basis which shall insure that the latter are not a constant drain upon Federal resources ; the existing hole in the budget must be plugged.

It does not suffice, in our judgment, for the Reich to remain in supine contentment with the present situation merely because it has been the result of constitutional evolution. Germany waged war as an undivided whole and the financial responsibility of the Reich to the Allies cannot be qualified or weakened by an attitude of passive acquiescence in the undiminished rights of subordinate areas. So long as Germany has any external obligations they must be

paramount, and the resources normally to be assigned to the States and communes must be clearly defined, and care must be taken to secure that these resources are not more than adequate to legitimate needs.

Where further assistance must be given by the Federal Treasury, the amount of such assistance should again be strictly proportioned to the necessities of each case and subordinated to continually increasing central supervision by the Federal Treasury of local expenditure.

In considering the budget as drafted in 1924-25, we have felt compelled to assume that the assignment to the States amounting to 1,800,000,000 gold marks is an irreducible figure, and that if the States themselves have budgeted for the receipt of this sum the Reich will be unable to escape the liability in one form or another. This is the most probable assumption which we can make in a matter which bristles with political difficulties, and it is supported by the estimates submitted to us of the revenue and expenditure in 1924-25 of Prussia, Saxony and Bavaria; in each case deficits are disclosed.

FURTHER COMMENTS UPON PARTICULAR TAXES

1. The committee recognize that the taxation of each large nation to-day is the product of many factors, including its historical evolution, its economic conditions, its political ideas, its constitutional framework, and its social psychology. What is a good system for one country may be quite unacceptable for another. Even though the same elements may exist in two systems, the importance played by those several

elements in the whole may be quite different. If a similar total burden is being raised in two countries, it is almost certain that the manner in which it is being spread over the community and the particular devices adopted to raise it will be very different.

2. For these and other similar reasons we do not regard it as particularly profitable to pass the German budget in detailed review merely to suggest that each particular tax can be raised to a rate or level found in some Allied country for that tax, and thus to impose upon Germany the maximum burden borne under each head in any of the creditor countries. To do this would be to lose sight of the principle we have referred to above, and also to ignore the question of the total burden. For example, to state that Germany could stand increases in the rates on tobacco, beer, spirits, etc., to the level of those in England, while ignoring the existence of her high turnover tax, which England does not impose ; or to state that Germany could bear increased rates of death duties, while wholly ignoring the existence of her capital taxes, would be to destroy the balance of her system and be oblivious to the total burden thus accumulated. The committee would desire to avoid being dogmatic as to the way in which a given sum shall be raised by the German Government. Having come to the conclusion that a given burden can be borne, it is for Germany to suit her own conditions in prescribing the ways in which it shall be obtained. At the same time, diverse as the systems in the allied countries themselves are, the committee offers the following suggestions as the subject of their common agreement and as suited, in their judgment, to German conditions :

1. *Tobacco*

Eminent technical experts have made the following suggestions, which we commend to the notice of the German Government :¹

While they believe that the institution of a tobacco monopoly would entail heavy immediate expenditure, thus causing economic disorder, the technical experts recommend that the free manufacture and sale of tobacco should only be allowed to continue if subject to the regulations of the following scheme :

1. No factory, nor wholesale or retail tobacco shop may in future be established nor may any existing establishment be enlarged without the permission of the State.

2. The introduction of tobacco substitutes in manufacture is prohibited.

3. The number of existing factories must be reduced by abolishing, with a fair indemnity, those which are really not industrial in character, while all factories which have been proved by experience to be incapable of producing goods at a fair cost price must be expropriated.

4. Products manufactured in the various factories shall still be sold with their trade-mark, while the sale price to the consumer shall be indicated on each package ; each box or packet to be sealed with a band representing the State guarantees.

5. Existing manufacturers shall form a consortium according to the category of goods produced. This

¹ These suggestions are contained in a report drawn up by M. Mayer and M. Aliprandi, which will be put at the disposal of the Reparation Commission, together with a report on indirect taxes drawn up by M. Hulin and M. Mazzucchelli.

consortium, while collectively undertaking to supply the State with the quantities required for consumption, shall have to deliver its products at its own expense and exclusively to the State warehouses indicated.

6. The products manufactured shall be bought by the State at a price to be fixed at regular intervals.

7. Prices shall be fixed in conformity with the results obtained in one or two State factories, to be run for experimental purposes and for the control of prices.

8. Importers of foreign manufactured products shall be free to continue their business on the sole condition that they sell the imported products to the State warehouses, under the same conditions of delivery as home manufacturers who deliver the goods produced in their factories.

In regard to sale organization, the technical experts make the following recommendations :

1. The State shall use the wholesale dealers' warehouses for its own purposes.

2. Retail sales must be carried out exclusively by licensed retail dealers.

3. The retail dealers must only sell State products bearing the proper guarantee band at the price fixed on the package.

4. The remuneration of retail dealers shall be fixed at regular intervals by a certain rate of commission on the sale price to the consumer, such rate not to exceed an average of 12 per cent. Bonuses within this limit of 12 per cent would encourage the most energetic retail dealers and thus develop the turnover.

5. Payment for manufactured products delivered

to retail dealers shall be made to the warehouse supplying them by means of check or postal order (not in cash and without credit) minus the commission above stated.

6. A small number of State retail shops shall be instituted in order to obtain reliable estimates and to control the expenses of sale.

On the basis of this plan the technical experts make the following estimate of the profit to be obtained by the State.

	Swiss francs
Cost of manufacture	476,160,000
Manufacturer's profit and additional general expenses (35 per cent of the cost of manufacture)	166,656,000
Expenses for the warehouse service and general expenses of the sale organization (1 per cent of the gross receipts)	20,906,400
Cost of delivery to retailers (12 per cent of the gross receipts)	230,876,800
Additional expenses for transport (80,000 tons × average distance of 25 kilometers × 0.25 franc)	500,000
Annuity payment in the event of the indemnification of one-fourth of the present manufacturers	16,975,000
<hr/> Total expenses	<hr/> 912,074,200
Gross receipts (according to Tables V and VI)	2,090,640,000
<hr/> Net profit for the State	<hr/> 1,178,565,800
<hr/> That is (gold marks)	<hr/> 856,515,000
Percentage of net profit	56.4

The technical experts have the following observations to make on the above table :

1. An annuity payment is provided for, which would correspond to the amounts to be allowed for the indemnification of the small factories to be closed down.

2. The cost prices of a free industry distributed amongst a large number of factories are higher than those of a monopoly. Consequently the costs of manufacture under a monopoly system are increased by 35 per cent in order to allow the manufacturer a reasonable profit.

3. With this organization, which leaves the factories and retail establishments in their present form, the taxes now collected by the German Government would no longer have to be deducted, with the sole exception of the tax on wholesale dealers to the amount of 6,000,000.

Under a system of sale, organized in conformity with this scheme, the technical experts put forward the results of such a plan as under :

	Gold marks
Gross receipts (amount expended by consumers)	1,523,960,000
Profit obtained by the State from which must be deducted the taxes at present collected by the Reich	856,515,000
Customs, tax on turnover	6,000,000
Net profit obtained by the State	850,51,5000

The technical experts consider that it would be preferable to entrust the sale organization to an entirely autonomous organization, the constitution of which might well be based on the example of the

Swedish monopoly. On the other hand, it is their opinion that the present fiscal organization of the German Reich should be used for the supervision of the tax.

In conclusion, the technical experts believe that during the first period, which would not exceed two years, the estimate of the guaranteed net profit might be based on the assumption that each inhabitant spends only 26 Swiss francs per annum, which is the figure now obtaining in Austria. Such a figure would yield a net profit of 657,000,000 of gold marks on the following estimate.

	Swiss francs
Gross receipts 26×62 millions .	1,612,000,000
Total expenditure ¹ . . .	707,917,000
Net profit	904,082,000
or 657,000,000 gold marks.	

To recapitulate, the guaranteed revenues for the payment of reparation which Germany might obtain by the tobacco tax would be as follows :

	Gold marks
1924-25 (German estimate)	498,000,000
1925-26 . . do.	657,000,000
1926-27 . . do.	657,000,000
1927-28 . . do.	856,000,000

A considerably larger sum can be realized from the German duties, while decreasing the burden falling on the German consumer. The less efficient factories will be eliminated and substitutes will be abolished ;

¹ Expenditure shown in the table reduced by $\frac{36}{33.72}$ with the exception of the expropriation annuity.

surplus profits of the intermediaries will be reduced, leaving them nevertheless a reasonable margin. Without introducing the monopoly reform, standard factories will be instituted (one or two factories to control costs and few selling shops) and the sales will be strictly disciplined.

The proceeds would be paid in periodically by the "Service of assigned revenues", either :

(a) In the case of the adoption of the "assiette" suggested by the technical experts, on the basis of 60 per cent of the gross revenue (as the technical experts themselves have calculated that 40 per cent represents purchase price of manufactured tobacco, plus cost of distribution, etc., the remaining 60 per cent represents an absolutely net profit from the duty) ; or,

(b) Otherwise, on the basis of a sum in gold marks for every kilogram of tobacco taxed, according to the various chief qualities of the tobacco ; this sum to be fixed by the technical experts.

2. *Indirect taxes generally*

The rates appear to the committee to be unduly low, and, as prosperity grows, to be susceptible of increase without diminishing consumption.

3. *Turnover tax*

It is our general opinion that this tax should, at the earliest possible moment, be somewhat reduced in favor of other forms of taxation.

4. *Taxes on motor transport*

It is considered that the present total burden is too

low and that a substantial further sum might be raised without detriment either by a tax on petrol or a supplementary duty on motor cars, or by a combination of these means.

5. *Death duties*

The yield from these duties is extraordinarily low judged by almost any standard. It is not satisfactorily accounted for by the temporary depreciation in capital values which is due to lack of profits and trade output. Not only is the total yield low judged by any test as to capital values, but the actual rates of duty being imposed are also, in the committee's judgment, inadequate. While not unmindful of the effect of the relation between these duties and the capital tax in general, the committee thinks that the position disclosed in the following table, compiled by the German Government, indicates that there is considerable room for increased taxation under this head. It will be observed that where the rate in Germany is nominally higher than that in other countries, it is in those scales where the tax may be least influential in its effect upon total yield.

Annual taxation on capital, in the committee's judgment, tends to become a part of the income tax system and to discriminate between income derived from work and that derived from investment. In this case, therefore, taxation of capital by annual payments is in a different category from ordinary succession duties.

FISCAL BURDEN CONSTITUTED BY THE DEATH DUTIES IN GERMANY,
BELGIUM, GREAT BRITAIN AND FRANCE

(Burden expressed in percentage)

Property Left (in gold marks) *	Germany	Belgium	Great Britain	France
WIFE AND THREE CHILDREN				
20,000	1·5	2·1	3·0	3·5
200,000	2·9	2·7	5·0	6·1
2,000,000	5·9	3·8	15·9	11·5
6,000,000	7·5	4·8	22·8	14·4
BROTHER				
20,000	7·8	8·3	3·0	23·3
200,000	17·4	11·4	5·0	36·0
2,000,000	30·0	17·0	19·2	50·1
6,000,000	30·0	22·2	25·9	56·2
PERSON NEXT OF KIN				
20,000	18·2	16·7	3·0	36·8
200,000	40·6	22·8	5·0	48·3
2,000,000	70·0	34·8	23·5	61·0
6,000,000	70·0	44·5	29·8	66·5

IV. PROPOSAL FOR CONTROL OF REVENUES
ASSIGNED AS SECURITY

It is necessary to elaborate in rather fuller detail the recommendations which we have made in Part I of this report for the assignment of the taxes, etc., on tobacco, alcohol, sugar, beer, and of the customs revenue as security for payment of the sums charged annually on the German budget.

As regards the years 1926-27, 1927-28, as already

* The foreign currency has been converted into gold marks on the basis of the average rates of exchange quoted for the currency at issue on the Berlin Stock Exchange in the month of January, 1924. According to these quotations 1,000 gold marks were equivalent to—55·5 pounds sterling in round numbers, or 5,000 French francs in round numbers, or 5,550 Belgian francs in round numbers.

indicated, the assigned revenues will play a special part in our plan. They will not only serve as a guarantee to creditors, but also as a means of measuring the contingent addition to, or deduction from, the total amount of reparation payments laid down in the plan. If the yield of these revenues falls short of 1 milliard in 1926-27 or $1\frac{1}{4}$ milliards in 1927-28, the reparation payments will be diminished by an amount equal to one-third of such deficiency; on the other hand, if they exceed those limits, there will be an additional payment equal to one-third of the excess; both deduction and addition, however, are limited to an amount of 250,000,000 in each year.

In 1928-29, and subsequent years, the amount of Germany's obligation is fixed by the standard payment, plus supplementary payment (and into the computation of the latter, the increased consumption of these taxed articles will enter).

The total yield of the controlled revenues will be paid into the account of the agent for reparation payments as from the time when the plan is put into execution.

In the first year in which there is a charge on the budget, and in all subsequent years, the amounts required to meet the charge will be retained and the balance will be periodically released to the German Government.

We propose that there should be one commissioner to supervise the controlled revenues, and under him a sub-commissioner for each of the five controlled revenues.

In order that the Reparation Commission may be in a position to secure an officer of the greatest experience and efficiency as chief commissioner, the

area of selection should be as wide as possible and not confined to the allied countries.

He should have the assistance of a consultative and advisory committee on which each of the interested allied countries would be represented.

The various German services of the assigned revenues would be obliged to deposit, through the receiving offices, immediately on receipt, the amount received under the head of the revenues in question at the nearest branch of the central bank acting as treasurer.

(A) *Funds*.—The separate branches should pay the sums into the central bank to an account at the disposal of the commissioner, who should afterwards provide for the periodical “reversements” to the German Government of sums in excess of the proportion of the year’s peace-treaty payments accrued to date.

(B) *Audit*.—The commissioner would impose such methods of independent audit as he might desire to ascertain that all assigned revenues—

1. Were properly obtained from the public, and
2. Flowed through the control administration.

(C) *Detailed responsibility for management*.—He would not be obliged to assume responsibility for detailed administration except in the case and in the manner indicated below. It would be his duty to see at all times that the administration was reasonably efficient and the accounting system honest and accurate. But since the interests of the Allies are not affected so long as the revenues are sufficient, with an adequate margin, to meet the annual charges, it would not be his duty in such circumstances to interfere with the details of control.

He would therefore not normally be obliged to

insist on the exact tariffs or the exact form of administration which would, in his view, secure the utmost yield, and he would not, therefore, be obliged (unless the need arose) to assume the responsibility of detailed direction with the administrative expense on staff, etc., which that would involve nor would he be required to have such an elaborate and expensive accounting and calculating personnel as would enable him to certify that every mark was accurately accounted for (which is obviously a very different thing from seeing that the system is honest and efficient).

If the need arose, his control would become automatically more active, more responsible, more difficult and, of necessity, more expensive. For if the revenues were in danger of being insufficient, it would be his duty to take every possible measure to increase their productivity. This increase in the active character of the control would be in exact proportion to the need for it. He would thus reform and direct administration in detail only if and so far as necessary.

(D) *The technical control* would consist, in the ordinary course, of the right :

(a) To obtain all information and examine all books.

(b) To visit and inspect the factories subject to duties, and to ascertain that approved standards are maintained.

(c) To send experts to report and advise and, in case of actual necessity arising, to exercise detailed control.

(d) To propose higher technical standards.

(e) To require prior advice of all administrative regulations.

In settling the constitution of the control body, it

should be borne in mind that it may be concerned with the issue of bonds guaranteed by the said assigned revenues, if it is desired to create an international bond other than the railway one.

The German Government should be asked not to reduce the rate of the assigned revenues without the consent of the commissioner, which would not be given until the consultative committee had had an opportunity of considering the proposal and approved it by a majority ; on the other hand, it is considered necessary that the German Government should be encouraged, regard being had to the rates prevailing in other countries, to effect increases in the taxation of alcohol, beer, and sugar.

The above system makes it unnecessary in relation to the problem of security, to insist on an increase in any particular tax, though we suggest to the German Government that it is to their interest especially having regard to the rates prevailing in other countries to effect increases in the taxation of alcohol, beer and sugar. But all interference in the German Government's tariff policy is to be avoided.

To sum up this subject we would lay down the following general principles :

1. The main lines on which the control should work ought to be decided by the countries interested. These main lines establishing the principle of a control developing automatically as required, and becoming complete control as soon as the revenues appeared to be insufficient, should, therefore, be laid down in protocols signed by all the countries whose interests are mainly involved.

2. These main lines should be elaborated into

detailed instructions by international experts (in practice of the nationalities of the countries interested).

3. With this safeguard, the execution of the control is intrusted to a single impartial person (with the necessary staff) so as to secure the rapid and consistent administrative decisions required for an efficient control.

4. His responsibility to the Reparation Commission should not be of a day-to-day order, but a periodical report should be made by him upon the condition and yield of the gage revenues.

5. In the event of the revenues for a given year proving insufficient, the whole system outlined in this scheme (working of the railways, a mortgage on industrial property, the control of the revenues assigned as security) will be prolonged as required for the purpose of making good the deficit.

The committee desires to express its high appreciation of the valuable and efficient cooperation received throughout its task from the general secretary, Mr. Andrew McFadyean, and to thank his assistant, Monsieur Denis, the interpreters, and all the staff for their ungrudging services.

CHARLES G. DAWES, *Chairman*

OWEN D. YOUNG

ROBERT M. KINDERSLEY

J. C. STAMP

J. PARMENTIER

EDGARD ALLIX

ALBERTO PIRELLI

FEDERICO FLORA

E. FRANQUI

MAURICE HOUTART

Paris, April 9, 1924

PART III

ANNEX NO. 1 TO THE REPORT
OF THE FIRST COMMITTEE OF EXPERTSPLAN FOR THE ORGANIZATION OF A BANK OF ISSUE IN
GERMANYI. *Name and location*

The bank, hereinafter designated as the "new bank", shall bear a new and suitable title, unless, in conformity with paragraph (b), Section III, below, the organization committee shall decide to use the Reichsbank for putting the present plan into operation. It shall be a private corporation, and its charter shall be for 50 years. The new bank shall have its principal office in Berlin and such branches and agencies as its managing board shall determine.

II. *Capital*

(a) The bank shall have a cash paid-up capital of 400,000,000 gold marks, which shall be in registered or bearer shares of 100 marks each. These shares shall be issued as follows :

1,000,000 shares to represent the assets of the Reichsbank ;

3,000,000 shares for subscription in Germany and abroad.

(b) All shares shall be alike, and after the initial subscriptions have been accepted, no restriction shall

be imposed upon their purchase and sale, other than such general restrictions of German law as shall apply to the purchase and sale of shares of other banks.

(c) Shares whether sold in Germany or abroad shall be paid for entirely in gold, and/or foreign bills, at their current gold values.

(d) Subject to the preceding provision of this section, the shares of the new bank shall be allotted and sold on such terms as to prices, times of payment and other conditions, as are most advantageous to the bank.

III. *Organization committee*

(a) For the purpose of taking the preliminary steps for the bank's corporate organization, there shall be created a temporary committee, to be known as "the organization committee". This committee shall consist of two members—the president of the Reichsbank, and one person who shall have been a member of one of the committees of experts acquainted with the discussions which resulted in the drafting of the plan for the bank.

(b) The organization committee shall have power generally to interpret any ambiguities appearing in the plan, provided always such interpretation shall not interfere with the principles involved. It shall also have power if it deems wise, to carry out this plan by the transformation of the Reichsbank, under suitable legislation, rather than by the organization of a new corporation. It shall frame the statutes regulating the administration of the bank. These statutes shall in particular include provisions concerning :

1. The form and character of the share certificates of the bank.
2. The formalities to be fulfilled for the transfer and pledging of the registered share certificates.
3. The cancellation of share certificates lost or destroyed.
4. The method by which the German shareholders shall elect the German members of the General Board.
5. The nature of the reports published by the bank, as well as the method and place of their publication.
6. The nature and duties of the permanent committees, of the managing board, and the officials of the bank.
7. The administrative departments to be created within the bank.
8. The date and place of the regular meetings of the managing board and of the general board.
9. The special meetings of the managing board and of the general board.

IV. *Administration and management*

The bank shall be administered by a managing board, under the chairmanship of a president, all of whom shall be of German nationality.

V. *The president of the bank*

(a) For the purpose of this memorandum only, the chairman of the managing board and of the general

board is hereinafter called the president ; he shall be the managing director of the bank. Subject to the limitations imposed by law, he shall perform such duties as are assigned to him by the bank's statutes.

(b) The president may be elected from among the members of the general board, or chosen from outside the board. The election by the board of a non-member as president, shall operate to vacate automatically the seat of that German member of the general board having a term of two years or more yet to run, whose election was obtained by the smallest share vote, unless some other member of the general board, having a two years' term or more yet to run, shall resign at the time, and his resignation be accepted by the board. A president, elected from outside the general board shall, by the fact of his election, become a member of the board.

(c) The first president shall be the president of the Reichsbank ; his term of office shall be six months. Subsequently, the president, who must be of German nationality, shall be appointed by a majority vote of not less than nine members of the general board, of which majority at least six votes shall be the votes of German members ; this appointment shall be countersigned by the president of the Reich.

(d) The president shall direct the managing board and shall take the chair at its meetings. In case of a tie vote, he shall have the casting vote. He shall appoint the officials of the bank on the recommendation of the managing board. He shall organize the distribution of their work and duties in the bank, and shall exercise disciplinary powers over the officials and employees, these powers being provided for in a special

clause of the statutes to be approved by the general board.

VI. *Managing board*

(a) The administration of the bank shall be entrusted to a managing board which shall be the administrative and executive body. This board shall be under the chairmanship of the president. It shall adopt its decisions by majority vote and in conformity with the regulations laid down in the statutes and by law. In particular it shall direct the currency, discount, and credit policy of the bank. It shall fix the rates of interest and shall draft all regulations concerning the policy of the bank.

(b) The members of the managing board shall be appointed by the president for a period to be fixed by the organization committee, subject to the approval of the general board, whose decision in this connection shall be adopted by a majority of nine votes, at least six of which shall be given by the German members ; these appointments shall be countersigned by the president of the Reich.

(c) The members of the managing board shall occupy no other remunerated post, neither shall they accept any honorary post without the previous consent of the general board.

(d) The salaries and pensions of the members of the managing board and of the president shall be fixed by the general board, the salaries and pensions of the senior staff of the bank shall be fixed by the managing board with the approval of the president, and in case of the junior staff, by the managing board alone.

(e) The managing board may, if they think fit, obtain the assistance of a consultative body composed of German members chosen from agriculture, commerce and industry.

VII. *General board*

(a) There shall be created a general board, consisting of 14 members hereinafter called the members of the general board. One-half of these members shall be of foreign and the other half of German nationality.

(b) Each member of the general board shall be chosen for a period of three years, except in the case of the first election or appointment. In the case of the first term of office, three German members and three foreign members shall serve for a term of one year ; two German members and two foreign members shall serve for a term of two years, and two German members and two foreign members shall serve for a term of three years. At the first meeting of the general board chosen, the members shall decide, by lot, the term for which each shall serve, namely, one, two or three years.

(c) Subject to the provisions of paragraph (b) of this section, and to the provisions of this plan that apply to all members of the general board, members of German nationality shall be chosen in such a manner and under such conditions as the stockholders of German nationality shall decide, in accordance with German law. The manner and conditions so decided upon shall be incorporated in the statutes. The manner of selecting the first group of German

members shall be determined by the organization committee as provided for in Section III of this plan. No plan shall be adopted for the first selection of German members that does not meet with the approval of the president of the Reichsbank.

(*d*) The foreign members of the first general board shall be appointed by the organization committee. They shall be chosen with due regard to their professional qualifications and financial experience. In making the appointments, the organization committee may consult the principal foreign banks of issue and/or any other authorities in financial matters whose advice it may desire.

(*e*) In case of vacancy in a position of a foreign member of the general board, arising from death, resignation, or other cause, there shall be a new election of another person of the same nationality to fill the vacant place. This election shall be by the foreign members of the board who are in active membership at the time this election is held. Unanimity less one vote shall be necessary for an election. The new member shall always be chosen from among the nationals of the country of the member whose vacancy he is to fill. Before electing any foreign members of the board, the board shall consult, with reference to said election, the central bank of issue of the country whose national is to be chosen and/or any other financial authorities of that country whom it may desire to consult.

(*f*) The foreign members shall be chosen, one from each of the following nationalities, British, French, Italian, Belgian, American, Dutch and Swiss.

(*g*) On the unanimous vote of the general board,

the number of German members may be increased.

(h) No Government official, or other person receiving compensation from the German Government, or from any foreign government shall become a member of the general board.

(i) Except as otherwise provided for by the bank's statutes, decisions of the board shall be by a majority vote of 10 members, or by a simple majority vote if the president and the commissioner are included in the majority. Should a member not be able to attend a meeting of the board, it will always be open to him to empower one of his colleagues, by registered letter or by telegram, to vote for him and on his behalf.

(j) At each of its meetings, and at least once every month, the general board shall examine the reports submitted to it by the president and the commissioner. It shall adopt decisions on all the proposals made to it by the president and the commissioner, provided that these decisions do not encroach upon the rights reserved to the president and the managing board as specified in Sections V and VI above.

(k) The metal reserve of the bank and the office for the printing of the notes shall be in Germany, but the general board may, by a three-quarters majority vote, decide that either or both be transferred abroad to a neutral country.

VIII. *The commissioner*

(a) The commissioner, who shall be a foreigner, shall be elected by a majority vote of not less than

nine members of the general board, of which majority at least six votes shall be those of foreign members. The commissioner's term of office shall be fixed by the organization committee.

(*b*) The commissioner may be elected from among the members of the board of foreign nationality or may be chosen from outside the board, from citizens of any one of the foreign countries represented on the board. The election by the board of a non-member to the position of commissioner shall operate to vacate automatically the position of the citizen of the country of which the commissioner is a citizen. A commissioner elected from outside the board shall, by the fact of his election, become a member of the board.

(*c*) If, at the first election, the person chosen as commissioner should be a member whose term, as decided by lot, in accordance with paragraph (*b*) of Section VII of this scheme, should only be one year, the term of this member shall automatically be increased to two years. In this case, one of the two foreign members who have been assigned to two years' term shall have his term reduced to one year. The decision as to which of the two foreign members shall have his term thus reduced from two years to one shall be made by lot.

(*d*) It shall be an essential duty of the commissioner to enforce the provisions of the law and the statutory regulations relative to the issue of notes and the maintenance of the bank's reserves which guarantee that issue. To this effect, the commissioner shall have the right to have furnished to him all statistics and documents which he may deem useful

for the accomplishment of his task, and whenever it appears to him necessary, he may make any investigations either in person or through his assistants. He shall be entitled to be present at the meetings of the managing board in Berlin.

(e) The office intrusted with the custody of the reserve of notes shall only deliver notes when authorized by the commissioner so to do.

(f) The commissioner shall be bound to the greatest secrecy in regard to all information he may obtain on the commercial operations of the bank.

IX. *Loans, discounts and investments*

(a) The bank shall make no loans or discounts having a maturity at the time the advance is made, in excess of three months.

(b) The bank shall discount no notes or bills bearing less than three names of known solvency, except that for one name there may be substituted collateral in the form of warrants relating to bona-fide commercial transactions or to goods. Such definition shall not be taken as including any notes issued or bills drawn in financial transactions or secured by stocks, bonds or other investment securities, but may include treasury bills of the German Government.

(c) The bank may, with the special authorization of the general board voting in the conditions laid down in paragraph (i) of Section VII, accept the long-term bonds of the Reich as collateral for loans

with maturities not exceeding three months, if the loans bear two responsible names, in addition to the collateral, one of these names being the name of a commercial bank doing business in Germany : *Provided*, That loans collaterally secured by the long-term securities of the Reich shall never exceed the amount of the bank's net paid-in capital and surplus, except by the unanimous vote of all the members of the general board save one.

(*d*) The bank shall make no loans nor advances on the security of real estate, mining property, oil property, or stock shares ; nor on the security of Government obligations, except as otherwise provided for in this plan. The bank may, however, take mortgages or titles to such property, stock shares, and Government debt bonds as additional security for loans previously made in good faith in accordance with provisions herein made.

(*e*) Subject to the provisions contained in paragraph (*a*), the bank shall make no loans, discounts, or other advances directly or indirectly to the German Reich, any German State, communes, or other German governmental units, or to any foreign government or governmental units, nor shall it invest its funds in the bonds, debentures or other debt of any such governmental unit, except as otherwise specifically authorized by its constitutive law. The deposit accounts and current accounts in the bank, of the German Reich, the German States, the German communes or other German governmental units, shall never show a debit balance.

(*f*) The bank shall not accept time bills of exchange drawn against it.

(g) The bank may not buy or sell merchandise, produce, real estate or stock shares of other corporations for its own account.

(h) The restrictions contained in the preceding paragraph shall not operate to prevent the bank from buying such real estate, equipment and supplies as it needs for its own banking business, or from selling such property as may come into its possession in connection with the guarantee of statutory loans. Moreover, the bank shall not be prevented, by the above restrictions, from buying in property where it needs to do so, in order to protect itself in the collection of statutory loans previously made in good faith and not paid at maturity.

X. *Service of the Reich's treasury*

(a) The managing board is authorized to make advances from time to time to the Reich, but the amount outstanding at any one time shall never exceed 100,000,000 marks. Such advances shall, in no case, be for a longer period than three months and in no case shall the Reich be indebted to the bank at the end of the bank's financial year, which shall coincide with that of the Reich. In consideration of these facilities, the Reich and its treasury shall conduct all their domestic and foreign banking business through the medium of the bank.

(b) The managing board shall also be empowered to grant advances to the post office and the railways for reasonable amounts on condition that these organizations shall intrust the bank, except in so far as the bank might modify this condition, with the

whole of their treasury service ; but the total amount of loans outstanding to the post office and the railways together shall not exceed 200,000,000 gold marks.

XI. *Service of the reparation treasury*

The bank will receive on deposit sums paid for reparations, it being understood that the relationship between it and the committee intrusted with reparation receipts shall be solely those of banker and customer.

This treasury service will proceed in conformity with the provisions of Annex—to the general report. The maximum amount to be held on deposit for reparation account shall at no time exceed 2 milliards of marks in conformity with Section X (a) of this Annex, except as otherwise provided therein.

XII. *Bank notes*

(a) The bank shall have the exclusive right of issuing and circulating bank notes in Germany during the period of its charter.

(b) The German Government may not itself issue any kind of paper money for circulation in Germany, during the period of the bank's charter, nor shall it permit any German State, commune, city, other governmental unit, corporation, or private individual to issue or circulate paper money in Germany during the period of the bank's charter, with the exception of the banks of Baden, Bavaria, Saxony, and Württemberg, which shall retain their charter of issue for sums not to exceed their present legal quota. The notes of

the rentenbank shall be gradually withdrawn from circulation under the conditions prescribed in Section XV and the appendix hereto.

(c) During the period of the bank's charter, the Reich shall not issue any coins for circulation in Germany (except gold coins, containing approximately their full value in gold metal) of a larger denomination than 5 marks ; and shall not issue coins of 5 marks or less, in excess of 20 marks per capita of her population. All coins, other than gold coins, issued by the Government, shall be issued through the bank. They shall be received by the Government in unlimited quantity at their nominal value, in payment of all taxes and other Government dues.

(d) The bank may issue notes for circulation, against gold coin or bullion, statutory discounts as defined in Section IX, demand credits in foreign banks and foreign commercial trade bills, with maturities of three months or less, taken at their present gold values at current rate of exchange.

(e) The notes of the bank, as well as metallic currency, shall be receivable in unlimited quantities for all taxes and other Government dues in Germany. The notes shall be unlimited legal tender, unless otherwise specifically provided by contract, for all debts, public and private.

(f) The notes of the bank shall be accepted at their nominal value for all payments made to the bank, both at the head office of the bank in Berlin and at all branches of the bank located in Germany.

(g) Notes shall be payable to bearer at the head office of the bank in Berlin on presentation. The notes shall also be payable on presentation at the

other offices and branches of the bank to the extent permitted by their cash reserves and monetary requirements. Payments may be made in any of the following forms, at the option of the bank :

1. German gold coins of the present legal standard of weight and fineness at par.

2. Gold bars, in denominations of not less than 1,000 gold marks, and not more than 35,000 gold marks, at their pure gold equivalent in German gold coin of the present legal standard of weight and fineness.

3. Demand drafts, payable in gold or in foreign currencies at current market gold values, and drawn on funds located abroad in solvent banks to be specified by the bank's statutes, provided that the premia above the gold bars (or gold values, in the case of currencies not on a gold basis) charged by the bank for such drafts shall never exceed the amount necessary to cover shipping expenses, including interest for the time of transit, on gold bars shipped in substantial quantities from Berlin to the foreign financial centre on which the draft is drawn.

The committee is of opinion, however, that, at the inception of the bank, conditions will be unfavorable for the application of the above rule of convertibility ; in this event, this rule may therefore be temporarily modified by the affirmative vote of every member but one of each of the following groups :

1. The organization committee.
2. The managing board.
3. The general board.

In case of such modification, the bank shall make all possible efforts and use all the means at its disposal

in order to maintain the rate of exchange of the mark at as near gold parity as possible. Furthermore, in case of modification of the above-mentioned rule of convertibility of notes, a return to convertibility will be permanently established as soon as possible, by a simple majority vote of the general board and of the managing board.

(h) While the bank shall not make reimbursement for notes that have been lost or completely destroyed, it shall replace worn or torn notes, on application, by notes in good condition, at their nominal value ; provided that such replacement shall not be required in the case of any note unless the part of the note presented shall constitute more than one-half of the note.

(i) The notes of the bank shall bear the facsimile signature of the president and the seal of the commissioner.

XIII. *Reserves*

(a) The bank shall always carry a normal reserve of at least $33\frac{1}{3}$ per cent of the total amount of its notes outstanding, subject to the following qualification :

In exceptional circumstances the reserve against notes may be reduced below $33\frac{1}{3}$ per cent, on the proposal of the managing board, by a decision of the general board ; but said decision of the general board shall require the affirmative vote of every member of the board save one. In case of such a reduction in the reserve, the bank shall incur the following penalties, the proceeds of which it shall pay to the Reich :

Whenever the reserve against notes shall be less than $33\frac{1}{3}$ per cent of the notes outstanding and shall

so continue for more than one week the bank shall pay the following deficiency tax upon the amount by which the said reserve is less than $33\frac{1}{3}$ per cent of the notes outstanding.

When the reserve is below $33\frac{1}{3}$ per cent and not below 30 per cent, a tax of 3 per cent per annum.

When the reserve is below 30 per cent and not below 27 per cent, a tax of 5 per cent per annum.

When the reserve is below 27 per cent and not below 25 per cent, a tax of 8 per cent per annum.

When the reserve is below 25 per cent, a tax of 8 per cent per annum plus 1 per cent per annum for each 1 per cent the per cent tax figure is below 25 per cent.

(b) No discount rate or rediscount rate shall be below 5 per cent per annum when the reserve mentioned in the preceding paragraph shall have continuously for one week or more been below $33\frac{1}{3}$ per cent of the bank-note liabilities there mentioned.

(c) Whenever a deficiency tax is payable, a percentage equal to at least one-third of the percentage rate of the tax payable shall be added to the bank's discount rate and rediscount rate, in addition to any increase in the said rates required to comply with the provisions of the preceding paragraph.

(d) The above-mentioned legal reserve may be kept in gold bars or gold coin at any office of the bank, and or in the form of demand deposits made payable in gold or its equivalent at the rates at which the deposits were made in banks of high standing located in foreign financial centres.

(e) The bank shall also hold a special reserve of gold and gold deposits of the same character required

to be held against its notes in circulation to the amount of 12 per cent of its deposit liabilities. Whenever the above reserve is continuously for one week or more below said 12 per cent, the bank shall pay a deficiency tax of 4 per cent per annum on the amount by which the reserve is less than 12 per cent and not less than 10 per cent ; a tax of 8 per cent per annum on the amount by which it is less than 10 per cent and not less than 8 per cent ; and a tax of 10 per cent per annum in addition to said 8 per cent for each 1 per cent by which the percentage figure is below 8 per cent.

(f) In order to assure adequate liquidity in the assets securing the bank's deposit liabilities, the bank shall at all times hold in addition to its afore-mentioned gold reserve of 12 per cent demand deposits in Germany and abroad, checks on other banks, and statutory notes and bills of a commercial character, payable at call or on time with maturities of less than 30 days to the amount of not less than 30 per cent of the bank's total deposit liabilities.

(g) The above-mentioned reserves and the liquid assets above described shall be segregated for the service of the bank's deposits.

XIV. *Profits*

The net profits of the bank, at the end of each financial period, shall be employed as follows :

(a) Twenty per cent shall be transferred to surplus or reserve until the bank's actual net paid-up capital and surplus shall amount to 12 per cent of its average liabilities on circulating notes, on the fifteenth day of

the six preceding months. If the ratio shall again fall below this 12 per cent, the above-mentioned allotment of 20 per cent of the net profits to surplus or reserve shall continue. When and so long as the ratio of the bank's net capital and surplus or reserve to its average liabilities on circulating notes, as above computed, shall exceed 12 per cent, the bank may use its discretion as to the percentage of its net profits it will transfer to surplus or reserve provided that the percentage thus transferred shall never exceed 20 per cent.

(*b*) A sum shall be assigned to the payment of dividends sufficient to pay 8 per cent per annum on the bank's shares.

(*c*) The balance of the net profits shall be divided as follows :

1. One-half to the shareholders, in dividends or to a special fund to be used for the maintenance of a uniform dividend policy.

2. One-half to the Government, as a franchise tax for the bank's exclusive privilege of issuing circulating bank notes.

(*d*) The dividends of the bank and other income derived from its capital shares owned by foreigners residing abroad shall be exempt from all German income taxes, present and future ; provided that this exemption shall not apply to general taxes imposed in Germany upon the real property of the banks in general. The bank, however, in consideration of the percentage of profits accruing to the Government under paragraph (*c*) 2, shall not be subject to any corporation tax or business tax levied in Germany by the Reich, the States, or any other governmental unit.

(e) Such privileges not inconsistent with this plan, now enjoyed by the Reichsbank, as may be specified by the organization committee as desirable and advantageous to the new bank shall be given to it.

XV. *Liquidation of the rentenbank*

The rentenmarks shall gradually be withdrawn from circulation by the bank in accordance with the provisions contained in the appendix attached.

XVI. *Dollar-Schatzanweisungen (treasury bills in dollars)*

(a) The German Government shall abandon all its rights to the proceeds from the liquidation of the Reichsbank (unless the present plan is put into execution by means of the transformation of the Reichsbank), in return for which the latter will give the Government an undertaking to assume responsibility for the repayment of the said bills not in excess of 210,000,000 gold marks, under conditions to be settled by the Reichsbank with the holders of these bills.

(b) At the same time, in order to guarantee the good faith of this operation, that is to say, in order to guarantee the Reichsbank against any loss resulting from this operation, the German Government shall hand over to the Reichsbank gold bills for an amount equal to and falling due at the same date as the dollar bills in circulation. As soon as the liquidation of these dollar bills has been completed, the Reichsbank will return to the German Government the

portion (if any) of the bills which it has received, and which has not been employed in insuring the liquidation.

XVII. *The Reichsbank*

(a) If the present plan is put into execution by means of the transformation of the Reichsbank, the latter shall redeem the outstanding circulating notes in its new notes, at the rate of 1,000,000,000,000 marks to 1 gold mark. The old notes shall be immediately withdrawn from circulation and cancelled.

(b) The Reichsbank, in case it is continued, shall meet the same reserve requirements against the outstanding notes which it undertakes to exchange, in accordance with the provisions of paragraph (a) of this section, as are required to be held against bank notes outstanding by Section XIII of this plan.

(c) If the Reichsbank is to be liquidated, this operation will be carried out by the new bank which would be then set up, and which would have to assume responsibility for, or itself carry out, the exchanges provided for in paragraphs (a) and (b) above.

XVIII. *Penalties*

A penalty in the form of fine or imprisonment or both shall be provided for the punishment of any person or persons wilfully giving incorrect information, directly or indirectly, to the president, the general board, the commissioner or his assistants.

XIX. *Measures to be taken by the German Government for the execution of the plan*

All the undertakings which the German Government will have to enter into in connection with the bank, for the execution of this plan, including the assignment for the withdrawal of the rentenmark, of funds to be received from the rentenbank's mortgages, shall be embodied in a special contract between the bank and the German Government. This contract as well as the statutes of the bank shall be duly approved by the German Parliament.

APPENDIX TO ANNEX 1

THE LIQUIDATION OF THE RENTENBANK

(Appendix provided for in Section XV of the plan for the bank.)

The Deutsche rentenbank was founded, and its operations regulated, by the decree of October 15, 1923.

The capital and the initial reserve were fixed by this decree at 3,200,000,000 rentenmarks, to be furnished half by agriculture and half by industry and commerce, including the banks.

The rentenbank holds a general mortgage, expressed in gold marks, on industrial, agricultural, and commercial property, amounting to 4 per cent of the value of this property as assessed for the Wehrbeitragsgesetz.¹

These mortgages bear 6 per cent interest for the benefit of the rentenbank.

¹ The amount of this mortgage already amounts to 3,700,000,000 gold marks.

The rentenbank is authorized to issue bank notes expressed in rentenmarks up to the amount of the capital and initial reserve (3,200,000,000 gold marks).

The rentenbank must open credits to the Reich during the two years following its foundation up to the amount of 1,200,000,000 rentenmarks, of which 900,000,000 will bear 6 per cent interest and 300,000,000 will bear no interest. The rentenbank is authorized moreover to open credits to the Reichsbank and to the private banks up to 1,200,000,000 rentenmarks, in order to finance private economy.

Up to the present the rentenbank has placed in circulation:

1. Seven hundred million, which have been delivered to the Reichsbank in order to provide for the credits to be granted by the latter to German manufacturers and merchants. This sum is therefore guaranteed by drafts or credits redeemable in rentenmarks. If and when the rentenbank is liquidated, no attention need be paid to them.

2. One milliard one hundred million rentenmarks which have been advanced to the Reich without any security but the signature of the latter, 900,000,000 of which bear 6 per cent interest per annum and 200,000,000 bear no interest.

In so far as concerns this latter sum of 1,100,000,000 the new bank (or the Reichsbank, if it is maintained) would assume the obligation *vis-à-vis* the holders of these notes to redeem them gradually within 10 years. To this effect the rentenbank would undertake to remit to the bank, as fast as they came in, all sums received from its debtors, whether from the property holders affected by the rentenbank mortgage or from

the State, up to the sum of 1,100,000,000.

This undertaking of the rentenbank *vis-à-vis* the bank would be covered by all the mortgages and guarantees which it holds, as well as by the guarantee of the German Government itself.

It should, moreover, be understood that all profits accruing to the Reich in virtue of its participation in the bank would be assigned by priority to the amortization of its debt of 1,100,000,000.

As soon as the payments by the rentenbank or by the Reich itself, as stated above, reach the figure of 1,100,000,000 the German Government and the rentenbank will be released from all liability *vis-à-vis* the bank.

ANNEX NO. 2 TO THE REPORT OF THE FIRST COMMITTEE OF EXPERTS

SUGGESTED INDEX OF PROSPERITY

BASIS OF COMPARISON

1. In addition to the standard contribution referred to in paragraph 8 (c) there shall be paid for 1929-30 and following years a supplementary sum according to the growth in prosperity of Germany. This increase in prosperity for any year shall be measured by the extent to which the index, as defined below, on the statistics of the completed preceding year, exceeds the average statistics of the base years.

COMPONENTS OF THE INDEX

2. For the purpose of computing the index, the following statistics shall be employed :

(a) The total of German exports and imports taken together.

(b) The total of budget receipts and expenditure taken together, including those of the States of Prussia, Saxony and Bavaria (after deducting from both sides the amount of the Peace Treaty payments included in the year).

(c) Railroad traffic as measured by the statistics of the weight carried.

(d) The total money value of the consumption of sugar, tobacco, beer and alcohol, within Germany (measured by the prices actually paid by the consumer).

(e) Total population of Germany (computed from the last available census data, vital statistics and emigration records).

(f) The consumption of coal (and lignite reduced to coal equivalent) per capita.

THE INDEX BASE

3. In computing the base the average statistics for the three years 1927, 1928 and 1929 shall be taken for (b) budget receipts and expenditure; for (e) population, and for (f) coal consumption per capita, and for the six years 1912 and 1913, 1926, 1927, 1928 and 1929 for the other categories (after appropriate adjustments for the differences in population and the altered gold values to make the three earlier years comparable with the three later years in this respect). The percentage change for each of these six groups, compared with the base, shall be separately computed and an arithmetical average of the six percentage results taken as the index.

PAYMENT TO WHICH THE INDEX IS APPLIED

4. The index percentage shall be applied to the amount of the standard payment, viz. 2,500,000,000, to give the supplement for the year, except that for the five years 1929-30 to 1933-34 it shall apply to 1,250,000,000 or one-half of the standard payment only.

MINUTE ADJUSTMENTS IGNORED

5. The supplementary payment is to be reckoned only for each completed half per cent of the index, *i.e.* an index average of 11.35 per cent would be reckoned as 11 per cent.

COMPUTATION OF SUPPLEMENT

6. For the year 1929-30, the computation of the supplement shall be made after the end of that year by comparing the statistics of 1929 itself with the index base.

DEFICIENCIES

7. In the event of the index in any year producing, as the supplement, a minus quantity the basis payment should continue to be made, but subsequent supplementary payments shall not accrue due until allowance has been made therefrom for such deficiency or "minus" payment of previous years.

DIFFICULTIES IN APPLICATION

8. Any disputed points upon the application of the

statistics of this index shall be referred to the finance section of the League of Nations for arbitration.

CHANGES IN THE VALUE OF GOLD

9. The German Government and the Reparation Commission should each have the right in any future year, in case of a claim that the general purchasing power of gold as compared with 1928 has altered by not less than 10 per cent to ask for a revision on the sole and single ground of such altered gold value. The alteration to be made may apply both to the standard contribution and the supplementary payment. Failing mutual agreement, a decision should be given by an arbitral committee appointed by the League of Nations. After decision, the altered basis should stand for each succeeding year until a claim be made by either party that there has again been a change, since the year to which the alteration applied, of not less than 10 per cent.

The alterations under this paragraph should be made by reference to such generally approved index numbers of prices (German or non-German) singly or in combination as the arbitration may decide.

ANNEX NO. 3 TO THE REPORT OF THE FIRST COMMITTEE OF EXPERTS

NOTE BY THE FIRST COMMITTEE OF EXPERTS

Of the assets and revenues of the German Reich and its constituent States subject to the application of article 248 of the peace treaty, the German railway

system is undeniably the most important and also that which can be the most easily utilized for the purpose of reparation.

The German railway system comprises about 53,000 kilometers of lines, and the rolling stock will very shortly amount to—

Locomotive engines (excluding electric and motor engines)	. . . . .	30,850
Passenger vehicles	. . . . .	69,253
Wagons	. . . . .	748,753

A considerable portion of this rolling stock is of recent construction. Two-thirds of the whole (18,000 locomotives and 500,000 passenger vehicles and wagons) were brought into service in the last 10 years. The rolling stock at present possessed by the German railway system is very superior both in quality and quantity to that which was in use before the war.

Speaking generally, it may be said that the equipment of the German railways is modern and fully up to the level of the latest improvements in railway technique.

The capital cost of the system amounts to not less than 26 milliard gold marks.

The experts called in the services of eminent railway specialists, and requested them to make a study of the German railways ; their report is attached.

GENERAL REPORT ON THE GERMAN RAILWAYS MADE TO THE FIRST COMMITTEE OF EXPERTS

By Sir WILLIAM ACWORTH and M. LEVERVE

March 26, 1924

In our earlier reports we described the situation of

the German railways and replied to various questions asked by the committee, especially as to the amount of net revenue which we considered they could yield for reparation purposes. We have now, as requested by the committee, brought together in a single document the essential portions of these reports, together with our own conclusions.

We desire to thank the German Minister of Railways and his staff for the manner in which they have assisted our inquiry in Berlin with information both verbal and documentary. In the short time at our disposal it has naturally not been possible for us to push our investigations very far, but we trust that the report which we now present is adequate for the purposes of the committee, and we think its substantial accuracy may be relied on.

CAPITAL INVESTED IN THE GERMAN RAILWAYS

In a preliminary report we stated that the capital value of the German railways might safely be taken at not less than 20 milliard gold marks. An official publication shows that the debt of the several States specifically entered as railway debt, less that portion of it applicable to the ceded territories, amounted in 1914 to 17.93 milliard gold marks. In March, 1920, at which date the railways were transferred from the ownership of the several States to that of the German Reich, the invested capital was reckoned as 25 to 28 milliard gold marks. This large increase is explained by the fact that at the date of the transfer—

(a) The value of the railways of the separate States was written up to conform to the real amount

of capital that had been invested in them, much of which had never been or had ceased to be represented by railway debt.

(*b*) There was added to the old capital the value of the additions made during the war. Between March 1920 and March 1923 the capital invested was further increased to 25·86 milliard gold marks. The expenditure for the current year and that which will still need to be incurred in payment for commitments already entered into will put the final figure well over 26 milliard gold marks.

The above figures represent capital invested, which is sometimes a very different thing from capital value. But in this case the capital value of the German railway system which comprises 53,000 kilometers, at 500,000 gold marks per kilometer, may be taken to be fully equal to the capital invested. Now, a large part of the system is double tracked ; the lines, stations, yards and buildings have been constructed to a high standard, and they are very amply equipped with up-to-date rolling stock. A comparison with the capital cost per kilometer of the railways of other important countries, taking account of all the factors on both sides, gives good grounds for saying that the German figure of investment is by no means an excessive representation of actual cost.

NET REVENUE ATTAINABLE

We think that a net annual revenue of one milliard gold marks per annum can reasonably be expected from the German railways. This is very slightly more than the net revenue earned before the war ; but it

was then earned very easily. No attempt was made to maximize net revenue, which was much more than sufficient to meet the interest on the railway debt.

On the one hand, the tariffs were kept low, especially for passengers. The guiding principle was, as has been recently expressed in a brochure published by Doctor Sarter, whose statement, as he is a highly placed official in the transport ministry, may be taken as authoritative : " The State railways ought primarily to have regard to the progressive development of the economic life of the country and to treat the attainment of net revenue as only of secondary importance ".

On the other hand, the operating expenses were unduly high, the staff was unnecessarily large, and magnificent stations and enormous shunting yards were worked at great expense. Moreover, as is shown by the figures which we have given above, the working expenses included year by year large sums for improvements and additions which might properly have been charged to capital.

It may be thought—seeing that for some years past the gross receipts of the German railways have not covered their expenses, and that recently the expenditure was several times as great as the receipts, while even now the earnings are only equal to the expenditure—that this estimate of ours is unduly sanguine.

But it is to be remembered that since the war almost every country has gone through a similar experience. Even in the United States, where there was no currency depreciation, the net income of the railways in 1920 was almost negligible ; whereas in England, where currency depreciation is quite small,

the receipts in 1921 fell short of the expenses. But in both countries the situation has now completely changed, and if in other countries the railways have still not regained financial equilibrium, experience sufficiently shows that this phase is only temporary. And Germany has one special circumstance of the first importance in her favor. On the railways of England and America the wages of the railway staff are, roughly, double what they were before the war. No such advance has taken place in Germany. On the contrary, the average wage is at present, we are informed, only 75 per cent of the pre-war wage. It is proposed in the current year to increase this percentage to 93 per cent of the pre-war average. But there is no prospect of any such increase above the pre-war standard as has taken place in the two countries mentioned. And this for two reasons—the cost of living has not increased in Germany, as it has there, and, as German wages in other occupations have not risen, railway wages do not compare unfavorably.

Naturally we do not suggest that a milliard of net revenue is attainable at the outset. But we think a substantial sum can be obtained very shortly, and that the full amount should be reached within a period of three years. It should be arrived at in the manner following :

During the war there was imposed in Germany, as in other countries, a transport tax. This tax still continues to be levied. It is included in the rates charged to the public but is paid over by the railways direct to the finance ministry and forms therefore no portion of the railway revenue. It is a tax on the gross receipts,

and is fixed at 7 per cent on all receipts from freight traffic other than coal, and at 10 per cent to 16 per cent, according to class, on passenger traffic. On the average it amounts to 6 per cent of the total gross receipts. It is estimated to produce in the year 1924 227,000,000 gold marks. If in future years the traffic increases, or if the same volume of traffic is charged at a higher rate, naturally the proceeds of the tax will increase proportionately. It seems safe to assume that its yield will not fall below the present figure. Moreover, as it is levied on the gross and not on the net income, it is independent of any variations in the cost of operation. If, as we recommend, the German railways in future are required to pay over the proceeds of this tax to the Reparation Commission, the commission will have from the outset a safe and important source of revenue at their disposal.

There remains a sum of 800,000,000 gold marks in round figures to be obtained, and it can, in our judgment, be obtained as net profit on the railways, on condition that the tariffs are fixed at a reasonable level, that the number of employees is reduced to a reasonable figure, and that in all other matters curtailment of expenses is secured by economical operation on business lines.

Before the war the German railways spent 70 marks for every 100 marks which they earned. In technical railway language the "operating ratio" was 70 per cent. This was an unusually high ratio, especially having regard to the fact that the railways paid no taxes. It was a good deal higher than the English ratio, much higher than the ratio in France. But in every country there has been since the war a

marked increase in the ratio, and we do not think that under post-war conditions the German railways can be expected to operate at a ratio so low as 70 per cent. Not only have they now to bear the transport tax, but though a great rise in wages—the main cause of the rise of the operating ratio in other countries—is not to be expected in Germany, the increased cost of materials, coal and steel particularly, seems likely to be permanent. We think, however, that an operating ratio of 80 per cent ought to be attainable. We base this opinion in the first place on our investigation of German conditions, and especially on two facts.

1. That new rolling stock has been acquired in the last few years in such large measure that the need of repairs and renewals will be exceptionally small for some years to come, and

2. That the recent very large expenditure on fitting the freight wagons with continuous brakes should result in important operating economies.

In the second place, we think our knowledge of what has happened and is happening in other comparable countries justifies us in asserting in broad terms that, given efficient and economical management, there is no apparent reason why the operating ratio should not be brought back in a short time to 80 per cent in Germany as it has already been brought back elsewhere.

In England and America, as we have said, the wages of the staff have doubled, but the tariffs are only roughly 50 per cent above the pre-war tariffs. In the result, the operating ratio has become much higher than before and stands at present at about 80

per cent. But the remaining 20 per cent, calculated on a greatly increased gross revenue, suffices to give a return of over 4 per cent on the railway capital.

Now in Germany a gross revenue of 4,000,000,000 gold marks per annum is in sight at the present moment. With a gross revenue of 4,000,000,000 gold marks per annum and an operating ratio of 80 per cent, the net revenue would be 800,000,000 gold marks. And this sum added to the 227,000,000 gold marks of the transport tax yields a total of over 1 milliard gold marks.

And the whole of this sum can be made available for reparation. The fall of the mark has wiped out the pre-war railway debt ; the plan before the committee will, we understand, relieve the railways under the new management of responsibility for the debts recently incurred ; and capital has been so lavishly spent in the last few years that there can be no justification for further expenditure for some years to come. In future years we assume that, under commercial management, new capital will not be spent, unless with the assurance that the resulting profits or economics will at least suffice to meet the interest.

We shall revert to the matter of receipts and expenditure when we come to discuss the budget estimate for the year commencing April 1924.

Meanwhile it may be useful to approach the subject from another point of view.

One milliard is less than 4 per cent on the railway capital of 26 milliards. If we deduct the transport tax, which certainly does not exceed in amount the taxation levied on railways in other countries, the German railways are only required to earn a fraction

over 3 per cent on their capital. And, as already stated, we have no reason to think that the German railways are over-capitalized ; 3 per cent can hardly be regarded as an excessive rate of interest.

In England the rates tribunal is required by statute to permit the railways, provided that their management is efficient and economical, to charge rates adequate to produce a net income of, roundly, 1 milliard gold marks on a capital somewhat less than that of the German railways. In America the Interstate Commerce Commission, also acting under statutory authority, has decided that $5\frac{3}{4}$ per cent is a reasonable return on railway capital and has authorized rates regarded as sufficient to produce this return.

If the German railways are required to pay very little more than 3 per cent for reparations, they ought, under efficient and economical commercial management, to earn a substantial surplus over and above, which can be applied in relief of the general taxation of the country. At the same time, it should be understood that the profits on railways, like those of other commercial undertakings, vary from year to year. There are good times and bad times. The milliard which we have assumed as a reasonable return must be regarded as an average one year with another.

As we have already said, the full net revenue will not be attained from the outset. A period of some years will probably need to elapse, for the German traffic has been seriously affected by the occupation of the Rhine-Ruhr railways.

Time will be needed, after the railways have been reorganized as a united system, to bring the new

system into work and to re-establish completely the old traffic. And this reorganization will mean expenditure. Further, the necessary reform of the management will take time to carry out and will not produce its full effect at once.

For all these reasons and naturally without committing ourselves to mathematical accuracy, we think it reasonable to estimate that the net revenue apart from the transport tax, and after providing for building up of an adequate reserve, will increase as follows :

	Gold marks
First year	400,000,000
Second year	550,000,000
Third and fourth years	700,000,000-750,000,000
Fifth and subsequent years	800,000,000

Measures to obtain results

It is evident, in the first place, that the railways in common with every other German undertaking can only give satisfactory results if the currency is stabilized and political and social tranquillity prevails.

As for the measures to be taken to obtain the results indicated above, we may repeat : The railways must be worked as a commercial enterprise—that is to say, with the determination, on the one hand, so to fix rates as to produce all the receipts that can be obtained, and, on the other hand, to reduce the expenditure to a minimum. The management of the German railways has hitherto been far from working to this standard. We shall show later that since the war the tariffs, both for passenger and freight, have

been kept too low, with the object of encouraging industry and commerce, and especially of favoring German export. The tariffs are still regarded as they were before the war, primarily as a weapon in the hands of German trade, and only secondarily as a source of railway revenue.

On the other hand, the expenditure on rolling stock and works of every kind has been extravagant since the war, and the staff employed is at the same time much too large and badly paid.

It is, therefore, indispensable to make a radical change in the policy followed by the railways hitherto. But we do not believe that any German management will have the strength necessary to fight successfully against the traditional mental attitude unless there is behind it the constant pressure of an expert control, established and maintained in the interests of the Allies, to supervise the management in the matter both of tariffs and of expenditure.

We shall deal later with the question of the control in greater detail.

Further, we regard a complete change in the organisation as essential. We think that the recent establishment of a separate undertaking, with a separate budget and with a certain measure of independence, though it is a move in the right direction, does not go far enough. The undertaking, though separate, still remains a Government undertaking. In our judgment it is necessary to go further and, while leaving to Germany the ownership of the railways, to intrust the management for a period of years to a commercial company, which will be German, but with a board of directors containing

representatives both of the shareholders and of the creditor Allied Powers.

What this period of years should be, how the company should be constituted, with what powers and with what restrictions, is a matter which we understand the committee itself will deal with. We need only urge that the company and its management must have adequate freedom in the matter both of tariffs and operation. And if we may vary the phrase of Doctor Sarter, we think that a commercially managed railway company ought to treat the attainment of an adequate net revenue as of primary importance, while at the same time having regard to the progressive development of the economic life of the country and being careful not to kill or even impair the productive capacity of the goose that lays the golden eggs.

Moreover, as we have already said, the financial result which we have mentioned can only be attained on condition that the entire German railways are either united in one system under a single management or divided in a reasonable manner into several systems working in harmony, with the same tariffs and under the same general regulations. If we had to contemplate separate systems wholly out of harmony with each other, the results obtained would certainly not correspond to our estimate of the net revenue obtainable.

Though that estimate assumes the existence of an undivided German railway system, it will of course be understood that, in making this assumption, we do not express any opinion as to the course of action which the Allied Governments may think it desirable

to adopt or on the general question of military or economic guarantees for reparation and security.

Finally our estimate takes for granted that the railways will not be required to carry traffic for the Government or the community unless their services are paid for at a commercial rate. Hitherto the German railways have carried free for the Post Office not only mails but parcel traffic. The railways of Great Britain receive at the present time from the Post Office payments for similar though smaller services amounting to more than 4,000,000 pounds sterling per annum. There are other instances of a similar kind, but of less importance, with which it is not necessary to deal here.

FUTURE CAPITAL EXPENDITURE

We shall see later that the expenditure incurred since the war for new works, and especially for rolling stock, has been very large. It has, in our judgment, gone much beyond the real needs of the railways.

For rolling stock alone there has been charged against the various budgets a sum of more than 3 milliard gold marks, which has enabled the railways to acquire more than 18,000 new locomotives and more than 400,000 new carriages and wagons.

We think, therefore, that, broadly speaking, the capital account can be entirely closed for some years to come without any injury to the railways. But at the same time we must not fail to call attention to the statement of the German Government that the capital expenditure to be incurred in the year 1924 will amount to over 500,000,000 gold marks, and that

to complete the program a further expenditure of 236,000,000 gold marks will be required in 1925. We think that this program ought to be examined in detail, and very drastically cut down.

Still, after a certain time it will no doubt be necessary to incur new expenditure in enlarging stations or building new lines. But as we have already said, a commercial administration will not embark on new capital expenditure unless it is evident that it will be directly reproductive. The cost can, therefore, be paid either directly, out of increased net revenue, or, if it is sufficiently important to justify this course, by loans charged on the increased revenue without trenching on the revenue pledged for reparations.

THE RAILWAY BUDGET—ORDINARY BUDGET

It seems desirable to examine the estimate for the ordinary budget for the financial year from April 1, 1924, to March 31, 1925—in German financial matters called the year 1924—which has been drawn up by the German administration.

It has been drawn upon the supposition that the Rhine-Westphalian Railways have been restored to German management. But even if and when this happens, it is probable that there will be confusion at the outset; a certain time must necessarily elapse before the normal working can be resumed and the ordinary currents of traffic restored; and further, certain exceptional expenses will have to be incurred which it is impossible to estimate exactly.

This budget is, therefore, somewhat theoretical, and may be considered as representing the results to

be obtained in the year 1925 rather than in the year 1924. Subject to these reservations, we will proceed to summarize and examine it.

*Ordinary budget including the Rhine-Westphalian
Railways*

I. EXPENSES

	Gold marks
Salaries and wages	1,631,007,000
Cost of material :	
Supplies and consumable stores	Gold marks 545,000,000
Maintenance of way and works	294,480,000
Maintenance and renewal of rolling stock and mechanical plant	394,000,000
Other material costs	140,513,000
Reserves	200,000,000
Interest and repayment of debt	325,000,000
	<hr/> 1,898,993,000
Total	<hr/> <hr/> 3,530,000,000

II. RECEIPTS

Passenger traffic	850,000,000
Freight traffic	2,700,000,000
Miscellaneous	130,000,000
	<hr/>
Total	3,680,000,000
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Surplus	150,000,000
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Receipts

The receipts for the budget in 1924 have been calculated by assuming a traffic somewhat greater than that in 1913, but less than that in 1921 and 1922, in which years the traffic was swelled by the activity of trade due to the fall of the mark.

The figures are as follows :

	Actual in 1913	Estimate for 1924
Passenger kilometers .	35,122,000,000	40,000,000,000
Ton kilometres .	57,251,000,000	60,000,000,000

The passenger receipts have been calculated on the basis of the tariffs which were in force at the time when the budget was framed. Later on, when we come to deal with tariffs, we shall point out that the third and fourth class fares were too low, and that the first class fares which affect only a trifling number of passengers, were too high. Since March 1 the third and fourth class fares have been increased by 36 per cent, and the first class fares have been slightly reduced. We may assume that the result will be an increase in passenger receipts of 30 per cent, which will raise the budget estimate of 850,000,000 to roughly 1,100,000,000 marks.

The freight receipts have been calculated on the basis of an average charge of 4.5 gold pfennigs per ton kilometer. The tariffs in force last February, at the time of our visit to Berlin, gave a higher average receipt per ton kilometer of 5.5 gold pfennigs. But a general reduction of 10 per cent was made on March 1, and others are in contemplation with the special

object of encouraging national trade and industry. As we shall explain later, these reductions do not seem to us justified under present conditions. If rates were maintained at a reasonable level, we may assume that the freight receipts would be about 10 per cent above the budget estimate of 2,700,000,000 marks ; that is, they would amount to 2,970,000,000 marks.

The receipts side of the budget would then be as follows :

			Gold marks
Passenger traffic	.	.	1,100,000,000
Freight traffic	.	.	2,970,000,000
Miscellaneous	.	.	130,000,000
			<hr/>
Total .	.	.	4,200,000,000

Expenses .

As for the estimate of expenses for 1924, it is to be noted that the expenditure for staff, 1,631,007,000 gold marks, represents about 54 per cent of the actual working expenditure of 3,005,000,000 gold marks. If we exclude interest and repayment of debt and reserve, neither of which is properly included in working expenses, this proportion is much the same as that on the railways of the adjacent countries. We pointed out in previous notes that the staff was unreasonably large. In 1919 there were 1,121,111 permanent staff and workmen employed ; at the end of 1923 the number was still very nearly one million. They must have been extraordinarily badly paid, for the percentage of the wage bill to the total expenditure was reduced in the budgets of 1922 and 1923 to

29 per cent and 20 per cent, respectively, a figure absolutely abnormal.

The expenditure of 1924 has been calculated on the basis of a staff reduced to 793,000, although on the 1st of January the number was still 936,800. A very drastic reduction is therefore implied, and is in fact being carried through at this moment. But there will be no saving in money. Increase of wages will more than counterbalance the decrease in the number of staff, for an increase of salaries and wages amounting to 19 per cent on the average is budgeted for. A table of the variations in the average payment per employee per annum in gold marks is given below :

	Year 1914	February 1924	Budget estimate for 1924
Permanent staff . . .	2352	1634	1972
Workmen	1331	1060	1338
Average	1718	1293	1595
Percentage of pre-war average	100	75	93

We feel bound to say that the increase proposed is entirely reasonable. The remuneration of the staff, especially in the upper and middle ranks, is quite inadequate, and, if good work is expected, it must be paid at its market rate.

A reserve of 200,000,000 marks has been included to provide for contingencies, a course which we cannot other than approve.

The total expenses for the year 1924, including this reserve and interest and repayment of debt, to which we shall refer later, are set down in the budget as 3,530,000,000 gold marks. With the tariffs on the

basis which we have taken above, the receipts will be 4,200,000,000 gold marks. This would give a surplus of 670,000,000 gold marks. This surplus would be net profit, because the reserve of 200,000,000 and 325,000,000 gold marks for interest and repayment of the new debt has been included in the expenses.

Further, it is to be remembered that the transport tax represents in effect a further net profit from the railways. If we reckoned this tax at 10 per cent on the passenger receipts and at 7 per cent on the receipts from freight other than coal, we should obtain for 1924 a figure of 276,000,000 gold marks.

The total net income of the railways would then be $670 + 276 = 946,000,000$ marks, which is very close to the milliard which we have suggested is attainable within a few years.

But as we have said already, these results are applicable to the entire German railways worked as a single system, including the Rhine-Westphalian lines, under normal conditions. Certainly they will not be obtained in the year 1924, though they should be obtained very shortly thereafter.

Interest and repayment of debt

The sum of 325,000,000 set down in the budget for interest and repayment of debt during the year 1924 is divided into :

	Gold marks
Interest	99,000,000
Repayment	225,000,000
Cost of administration	1,000,000
	<hr/>
	325,000,000

This debt represents liabilities recently incurred, for the old debt has practically disappeared. The total amount of the current debt is 312,000,000 marks. Particulars are given in the reply of the Government to questions asked by the committee. There are short-term loans, overdue accounts, bills of exchange maturing, advances made by the Ministry of Finance or by the Reichsbank, and emergency currency issued by the railways which has to be redeemed. The interest charge for these debts is quite large. In certain cases we are told that interest is running at the rate of one-tenth of 1 per cent per diem, that is 36 per cent per annum. Evidently debts of this kind should be paid off as soon as possible.

In addition to these current debts amounting to 312,000,000, it is estimated that further debt will need to be incurred as follows :

	Gold marks
Commitments for extraordinary expenses up to March 31, 1924	110,000,000
For the expenditure of the extraordinary budget during the financial year 1924 . .	387,000,000
For expenditure which will be necessary when the Rhine-Westphalian railways are handed back	200,000,000
Total	697,000,000
Add debt already incurred	312,000,000
Total debt, actual and anticipated . .	1,009,000,000

As we have said, the ordinary budget for 1924 provides an amount of 225,000,000 marks for repayment of debt. But it is evident that these expenditures

charged on the extraordinary budget tend to increase rapidly, and it is therefore necessary to cut down the extraordinary budget. To this question we now turn.

THE EXTRAORDINARY BUDGET

A budget of extraordinary expenditure has been drawn up for the interim period from November 15, 1923, to March 31, 1924. It covered originally an expenditure of 220,000,000, but was subsequently reduced to 170,000,000 marks, divided as follows :

Chapter I—	Gold marks
Dwellings	8,000,000
Additional rolling stock	77,000,000
Kunze Knorr brake	3,000,000
Miscellaneous	15,000,000
Chapter II—	
Doubling of road	6,000,000
Electrification	6,000,000
Stations	32,000,000
Repair shops	13,000,000
Miscellaneous	10,000,000
Total	170,000,000

These expenses are to be covered partly by credits already available, and partly by new credits to an amount of 110,000,000.

The ministry has also furnished us with a statement of other extraordinary expenses which in their judgment are still necessary for the financial year 1924. We summarize them as follows :

Chapter I—				Gold marks
Dwellings	.	.	.	15,000,000
Additional rolling stock	.	.	.	110,000,000
Electric rolling stock	.	.	.	20,000,000
Kunze Knorr brake	.	.	.	28,000,000
Miscellaneous	.	.	.	40,000,000
Chapter II—				
New tracks	.	.	.	10,000,000
Doubling of road	.	.	.	13,000,000
Electrification	.	.	.	10,000,000
Stations	.	.	.	94,000,000
Repair shops	.	.	.	36,000,000
Miscellaneous	.	.	.	11,000,000
Total				387,000,000

In addition to this expenditure of 387,000,000 marks in 1924, it is estimated that a further sum of 236,000,000 will subsequently be required merely to complete works already begun. This represents the final state of a program amounting altogether to 1,610,000,000 marks.

This estimated expenditure, which will have to be covered by loans, has, so we are told, already been reduced to an absolute minimum. All the same, we think it ought to be re-examined point by point in order to stop or at least postpone work not absolutely necessary, except where it has been carried to such a point that it had better be completed.

The works and the rolling stock of the German railways were very fully adequate before the war. Since the war no money has been spared to enlarge works and buildings and to renew and even increase the rolling stock to an extent which will make it

impossible to justify any new expenditure of this nature for some years to come. We give below particulars as to the rolling stock which bear out this statement.

ROLLING STOCK

Below is a comparison, based on figures furnished to us in Berlin, of the German railway rolling stock before the war and in 1924. We have ignored electric locomotives and motor cars :

	Steam locomotives	Carriages	Wagons
End of 1913 .	27,940	62,050	657,150
January 1924 .	29,966	67,800	723,100

Further rolling stock ordered last year from private firms and not yet delivered amounts to 844 locomotives, 1453 carriages, 25,653 wagons. Delivery of this stock was due by the beginning of May, but has been delayed owing to the occupation of the Ruhr. It is not now expected to be complete till the end of the year.

These figures show that the whole of the rolling stock handed over, either at the Armistice or together with the territory ceded under the treaty of peace, has been replaced by new. Old and out-of-date rolling stock, which could only be replaced to a very small extent during the war, has been written off and replaced since 1920, and a considerable quantity of additional rolling stock has been built.

It is worth while producing a table showing the locomotives written off and replaced for each of the last eleven years :

REPARATIONS

			Locomotives written off
1913	.	.	600
1914	.	.	379
1915	.	.	253
1916	.	.	237
1917	.	.	220
1918	.	.	167
1919	.	.	191
1920	.	.	690
1921	.	.	1849
1922	.	.	1585
1923	.	.	1500
Total . . .			<u>7671</u>

The same thing has happened with carriages and wagons. We give a table showing the new rolling stock acquired since 1914 :

	Steam locomotives	Carriages	Wagons
Delivered :			
1914-1918 .	8,859	11,832	181,196
1919-1923 .	8,506	12,313	246,388
Ordered but not yet delivered .	884	1,453	25,653
	<u>18,249</u>	<u>25,598</u>	<u>453,237</u>

The result is that 18,249 locomotives and 478,835 carriages and wagons, two-thirds of the entire stock, have been built within the last ten years, and that accordingly the rolling stock of the German railways is much superior to that which they possessed in 1914.

Replacement of rolling stock on this colossal scale

has necessarily entailed enormous expenditure. We are unable to give the actual cost, for it is spread over various budgets.

The figures which have been given to us show an expenditure, up to the end of 1922 only, of 2,267,774,488 marks.

This figure does not include the cost of replacing the rolling stock handed over to the Allied Powers in 1919, 1920 and 1921, which was paid for by special credit granted by the Ministry of Finance, amounting when reduced to gold marks to 739,347,006.

The replacement of rolling stock written off is charged against the ordinary railway budget. Additions to rolling stock are charged against the extraordinary railway budget.

From November 15, 1923, to April 1, 1924, rolling stock to an amount of 150,000,000 gold marks will be so charged.

A further expenditure of 50,000,000 marks in the ordinary budget and of 110,000,000 marks in the extraordinary budget is proposed for the year 1924.

KUNZE KNORR CONTINUOUS BRAKE

The application of the Kunze Knorr continuous brake to freight trains has also implied large expenditure. It was decided in 1918, while the war was still going on, to adopt this policy in order to release a large number of brakemen and to make possible an increase of speed of freight trains, more especially of military trains. This policy has been energetically pursued since the war; on the one hand, all the new wagons ordered have been fitted with continuous

brakes, and on the other hand, the equipment of the old stock has been pushed on.

The entire program is expected to be completed by April 1, 1925. The total expenditure will amount to 400,000,000 marks, of which 117,000,000 still remain to be paid. But it should be said that the Kunze Knorr Company has agreed to spread the payment over a period terminating only on October 1, 1926.

TARIFFS

Freight.—A study of the freight tariffs of any country at any time involves prolonged investigation of a vast mass of bewildering detail. To present in brief outline the broad general effect is almost impossible. Certainly the short time available has not made the task possible for us. In Germany its difficulty is increased by various special circumstances.

In 1921 the whole basis of the freight tariffs was altered by the abandonment for a large part of the traffic of flat mileage rates, and the substitution therefor of *Stafeltarife*, that is, rates under which the charge per mile decreases as the mileage increases. Simultaneously, most of the exceptional tariffs, under which the bulk of the traffic had hitherto passed, were withdrawn. Many of them have since been restored in a modified form. And this is only the railway side of the difficulty.

The currency question complicates the whole story. Tariff advances were at the outset made in the shape of percentage increases of existing rates. Then came a period when an index figure was adopted with a varying multiplier. Finally, in November

1923, the tariffs were calculated on a gold basis. The result, as we are informed, was that the freight tariffs were found to be on a level so high in comparison with the capacity of the traffic to bear the rates, that reductions on a large scale became absolutely necessary.

We are far from satisfied that this was or is the case. We feel convinced that further investigation would support our general conclusions that the freight rates have been, and are proposed to be, reduced in a manner and to an extent which cannot be justified from the railway point of view, and that this has resulted from the training and mental attitude of the officials, who have been brought up to share the views expressed in the quotation from Doctor Sarter which we have given above.

At the same time we feel it necessary to utter a note of warning. Our conclusion that freight tariffs might be a good deal higher than the German officials think they can profitably be is based mainly on the average receipts per ton-kilometer to-day as compared with the pre-war figures. We are told that these figures give a misleading impression of present-day facts, and numerous comparisons of certain important rates and classes of rates, pre-war and post-war, have been submitted to us, which would, if typical, put a different complexion on the matter. In spite of these tables we still adhere to the opinion we have expressed. But the committee will appreciate that what we have said is only an expression of opinion, and cannot claim to be a considered judgment based on fully ascertained statistical facts.

We have found it impossible to satisfy ourselves

how high the present German freight tariffs really are. The earliest documents submitted to us stated that the freight tariffs might be assumed to be double the pre-war tariffs. The facts do not seem to us to bear out this statement. Before the war the freight charge per ton-kilometer averaged 3.36 gold pfennigs. It is estimated by the officials that in November 1923, at the moment when the gold mark was substituted for paper marks of indefinite value as the medium of payment for railway services, the average rate was double the pre-war. In other words, according to the official estimate, the average rate in November 1923 should have been 6.72 pfennigs per ton-kilometer. But this is no more than an estimate, and we doubt its accuracy.

From this date there began a process, which is still continuing, of repeated and important reduction of rates regarded as excessive. There is statistical ground for believing that in the early part of January 1924 the average rate was 5.89 pfennigs, an advance, that is, not of 100 per cent but of 75 per cent above the pre-war average. On January 20 a number of important reductions came into force, and the estimate, based on such statistics as were available, was in the middle of February that the then average rate was 5.55 pfennigs, an advance on pre-war rates of 65 per cent. The reductions are, however, still going on, and some of them are of great importance. On March 1 an all-round reduction of 10 per cent was made on a large part of the traffic.

The budget estimate of freight traffic receipts is made on the assumption that the average freight rate during the year will have been brought down to not

more than 4.50 gold pfennigs, which is equivalent to an advance over the pre-war tariffs of only 33 per cent. No doubt this estimate errs, as was intended, on the side of caution.

On this policy we will make two observations. Taken as a whole, we have difficulty in believing that all particular reductions made and proposed can be justified. Even assuming that in certain cases reductions have been and are desirable in the interest of the railways, we feel convinced that reductions are being conceded which need not be made, and that at least in some cases the percentage of reduction is unnecessarily large. We have learned that exceptional tariffs involving great reductions, both for import of raw materials and for export of German produce, are being very freely introduced. The import rates for jute have been reduced by 25 per cent, for raw cotton and raw wool by 50 per cent. A reduction of the rate for miscellaneous wares exported by sea, amounting to 30 per cent, is on the point of coming into force, and a reduction of 30 per cent to 40 per cent in the rates for steel and iron exported by sea is contemplated.

There is a point in connection with the freight tariffs and freight revenues which, though the precise facts are obscure, is of considerable importance. The budget estimate for 1924 assumes, apparently with good reason, that the ton-kilometers to be carried in 1924 will be roughly equal to those of 1913. But conditions have greatly changed in the interval. The number of tons carried has fallen apparently by about 20 per cent, while the distance the average ton travels has increased in corresponding ratio. The German

officials adduce three main causes for the increase in the average length of haul :

1. The introduction in 1921 of Stafeltarife.
2. Changes in the previous currents of traffic consequent on the war and the establishment of new political frontiers.
3. Diversion of traffic in consequence of the occupation of the Rhine-Ruhr territory.

The effect of (1) will be permanent ; the effect of (2) will probably diminish with time ; the effect of (3) will presumably be only temporary. We cannot estimate what proportion of the ascertained results has been due to these three causes respectively. But it is clear that, if in future years the tonnage does not increase, while the average length of haul goes back to anything approaching the pre-war figure, the effect on the railway revenue will be quite serious.

Before we leave the question of freight tariffs, we desire to make one observation. We have admitted that the facts are obscure ; that our investigations have not been and could not be pushed very far. We have acknowledged that we have hesitated as to certain conclusions. It may well be that, where we have expressed a definite opinion, time will prove the opinion wrong.

All this we have had in mind ; it does not affect the thing which from the point of view of the committee is the really important matter, that we retain the conviction that the German railways can and should produce a net revenue of one milliard gold marks per annum available for reparation. Our forecast may well prove erroneous on certain points, too optimistic in one direction, too pessimistic in others.

But our estimate is based on broader grounds than tariff details and to it we adhere.

Passenger tariffs.—The German railways have nominally four classes of passengers, but first class carriages are not run on local trains and fourth class carriages are not run on express trains. The fares before the war were, respectively, at 7 pfennigs, 4·5 pfennigs, 3 pfennigs, and 2 pfennigs per kilometer. In April 1917, the transport tax, amounting to 16 per cent, 14 per cent, 12 per cent, and 10 per cent on the gross receipts from the four classes respectively, was introduced.

In spite of the tax, which is estimated to amount for 1924 to 85,000,000 gold marks, the railway management did not raise fares till September 1923. At this date the fares were increased, including tax, to 19·6 pfennigs, 9·9 pfennigs, 3·3 pfennigs, and 2·2 pfennigs per kilometer for the four classes respectively. Therefore, the third and fourth class fares were only increased by the amount of the tax, while the first and second class fares were more than doubled. The result of fares so obviously out of proportion was to empty the higher classes. Accordingly in December last the first and second class fares were reduced by one-third. But even then the first class fare was four times the third class and six times the fourth class. Naturally the first class was absolutely empty, being used by 7 passengers out of 10,000, while 7 passengers out of 100 travelled second class. A good deal more than half the passengers travel in the fourth class and a good deal more than one-third in the third class. Seeing that a third class passenger could till a few weeks ago travel 30 kilometers and a fourth class

passenger 45 for 1 gold mark with an ordinary ticket, and that more than half the total number of passengers in fact travel with season tickets issued at a rate roughly one-half of the ordinary rate—could travel, that is, respectively 60 and 90 kilometers for 1 mark—it is not surprising to find it admitted that the rates for passenger traffic have been quite insufficient to cover the working expenses. At length, as from the 1st of March, while the first class fares have been further reduced to a level which may possibly secure a few additional first class passengers, the third and fourth class fares have been increased by 36 per cent. The fares of the four classes are now 9 pfennigs, 6 pfennigs, 4·5 pfennigs, and 3 pfennigs per kilometer and the ratio between the classes is less unreasonable than hitherto.

We can hardly think that these new fares will be unduly burdensome to the German public, seeing that the German third class fares per kilometer will still be only half the corresponding fare either in England or in the United States. But the public have so long been accustomed to be carried at non-commercial rates that we think some falling off of traffic is to be expected, at least at the outset. We have accordingly estimated that a 36 per cent increase in fare will only produce a 30 per cent increase in receipts.

FUTURE CONTROL—THE RAILWAY COMMISSIONER

It is evident from the facts and figures set out above that the German Government has since the war run the railways in a manner which cannot be defended. On the receipts side it has failed to raise

the revenue which might have been and ought to have been raised. On the expenditure side it has spent capital not merely on restoring the pre-war situation, but on betterments of all kinds which under the existing conditions cannot be justified. The railways have not merely been restored to their pre-war state of efficiency, but have been brought up to a much higher standard, a standard which, to the best of our knowledge, is superior to that of any other country. We are given to understand that even inside the ministry itself this policy has been severely criticised. The excuse is that the pressure on the one hand of the great manufacturers to keep their works going and to avoid a wholesale dismissal of employees, which might lead to revolts or even revolution, was too strong to be resisted ; while on the other side, the poverty of the mass of the population was so great that the Government was compelled to maintain railway rates at a low level. Whatever may have been the reason, there can be no doubt of the facts.

Our own view is that, while the reasons above had considerable weight, the action taken was by no means wholly due to external pressure. The officials in the tariff section of the ministry were, as we have repeatedly said, only too ready to subordinate railway interests to non-railway circumstances. And the executive officers, whether charged with engineering or traffic management, were afflicted with what it is not too strong to describe as megalomania. They regarded it as due to the dignity of the German Reich that buildings should be magnificent, that railway plant should be up to a very high standard, that such and such services should be given, and so on. They had

never been taught the commercial necessity of cutting their coat according to their cloth.

Now the mere transference of the railways from State to company management will not of itself alter this mental attitude. A large part of the board will be German ; the general manager will be German ; and his responsible officials will be the same men who have inspired and carried out the railway policy of the past. We think it therefore essential that a railway commissioner should be appointed by and on behalf of the Allies to supervise and, if it should hereafter become necessary, to control in their interest the German management. We will, therefore, in concluding this report, deal with what in our opinion should be the functions of the railway commissioner and the organization of the staff.

THE RAILWAY COMMISSIONER

The railway commissioner must be a person who is acknowledged in the railway world as being in the first rank. It must be left for him, when appointed, to say what assistance he needs, in order to be able to assume responsibility for control of all branches of railway management. It will be his duty also to consider how far it is necessary to have local representatives in any or each of the districts into which the German railway system may hereafter be divided.

We assume that when appointed he will produce to the board an outline of the organization and the staff that he regards as necessary, and it will be for the board to approve his scheme. He must have the right to receive, of course, all reports, statistical and

financial returns, proposals for extra-routine expenditure, whether on capital or revenue account, for changes in tariffs or for the concession of exceptional rates and the like, when they are of such importance as would normally require the sanction of the general manager. He must also have the right to call for any further reports, returns and statistics as he may think necessary in order to enable him to form an independent judgment.

Being in possession of full and up-to-date information as to everything that is happening or is proposed, his first duty will be to decide whether to approve or disapprove. If he disapproves, or even hesitates to approve, he will discuss the matter with the general manager. He may be of opinion that things are going wrong, or that a course of action inconsistent with the railways being able to earn a financial return is likely to be adopted. In such a case it will be his duty, if he fails to induce the general manager to modify his policy, to bring the matter to the attention of the board, in order that they may be in a position to take such action as they think fit. It is to be hoped that, if the right man is appointed to the post, he will be able to work in entire harmony with the general manager ; and that the general manager, so far from resenting his interference, will welcome his support in putting a stop on the one hand to unnecessary expenditure, and in enforcing on the other hand the establishment and the maintenance of tariffs proper and adequate to secure for the railways as much net revenue as can reasonably be obtained without unduly hampering the trade of the country.

A second function of the commissioner will natur-

ally be to make for the foreign members of the board reports on any points which they may regard as of serious importance. We may suggest the reasonableness of the greatly reduced German export tariffs as a sample of this class of question. It is clear that the Allied Nations have a right to claim that the net revenue of the German railways should not be reduced in order to give to German manufactures an unreasonable advantage in overseas markets.

It does not seem necessary to discuss in detail what would be the position of the commissioner if the German railways failed to yield the net revenue fixed as reasonable for reparation purposes. We assume that, broadly speaking, in this case the commissioner-general will take over the functions of the general manager, and that, in lieu of discussing with the general manager or recommending to the board of directors, he would be empowered to issue positive orders, whether for stopping expenditure which he considered unjustifiable or for an increase which he considered reasonable in existing tariffs. It is evident that it would be necessary to require the German Government to agree in advance that, if payment on the agreed scale failed to be reached or even if there was serious danger that this failure would occur in the immediate future, the commissioner, as the representative of the Allies, should be entitled to enter into full control.

W. M. ACWORTH
G. LEVERVE

ANNEX NO. 4 TO THE REPORT
OF THE FIRST COMMITTEE OF EXPERTSCONCESSION OF THE WORKING OF THE RAILWAYS
TO A COMPANY

CONCESSION OF THE WORKING OF THE RAILWAYS

The working of the German railways shall be legally transferred to a company by a fixed date. The law will ratify the contract to be entered into between the German Government and the company to which the concession is made. The contract will provide that no change can be made in the conditions of the concession without the consent of the company and the trustee for the bondholders referred to below.

The law will further provide that the company shall have a monopoly of all railway extension in Germany.

The charter of the company will be annexed to and approved by this law. Before being submitted to the German Parliament the law will have to be approved by the Reparation Commission.

The conditions under which the working of the German railway system will be transferred to the company by this law shall be as set forth below.

The company will be of German nationality.

The company shall be responsible for the working, upkeep, and normal development of the railways, including rolling stock and equipment, and will be entitled, subject to the provisions hereinafter contained as to the powers of the German Government

and the railway commissioner, to conduct its business in such manner as the company may think proper.

The German Government shall have such control over the tariffs and service of the railways as may be necessary to prevent discrimination and to protect the public, but such control shall never be exercised so as to impair the ability of the railroad company to earn a fair and reasonable return on its capital value, including adequate provision for its bonds and preferred shares, a return on its ordinary shares, and adequate reserves for all purposes including amortization of capital. The plan to accomplish the foregoing shall be worked out by the organization committee hereinafter referred to.

The company shall as from the commencement of the concession be entitled to charge the tariffs then in force. Thereafter the company shall be entitled to vary the tariffs or any of them from time to time, subject to the provisions of articles 365 and 378 of the Treaty of Versailles.

It shall be the duty of the organization committee to settle the manner in which, subject always to the preceding provision, the control of the German Government over the service and the tariffs shall be exercised.

The term of the concession shall be at least of sufficient length to allow of the amortization of the bonds according to the provisions hereinafter contained. On the expiration of the concession, the company shall return to the German Government, free from all charge, the whole of the railway undertaking, including all rolling stock and equipment, in thoroughly good and complete working order.

As the consent of the German States is necessary under the German law of 1920 for any alienation of or charge upon the German railways, the German Government shall make in this respect all necessary arrangements with the States concerned. These arrangements shall be ratified by the law granting the concession.

This law shall confer upon the company the right to mortgage any property belonging to the railways.

It shall also contain an undertaking that neither the Reich nor the States nor any public authority shall impose on the railway company any new direct tax, whether upon receipts, either gross or net, or upon movable or immovable property, or in respect of the employees of the company or otherwise howsoever.

THE RAILWAY COMPANY

ARTICLE I.—*Capital of the Company*

The total capital which will be created, added to the first mortgage bonds for 11 milliard marks gold referred to below, will correspond to the capital cost of the German railway system (26 milliard marks gold).

Preference shares will be created to the amount of 2 milliard gold marks, bearing a fixed rate of dividend and entitled to participation in the profits of the railways, after payment of the annual payments mentioned below. This dividend and this participation, as also the terms on which the German Government may pay off or repurchase these shares, will be fixed by agreement between the German Govern-

ment and the organization committee described below.

These preference shares will be sold by the company for the profit of the German Government and of the company itself; one-fourth of the sum thus obtained will be the property of the German Government and three-fourths the property of the company. The sales of shares will be made under such conditions that the German Government will receive the whole sum due to it within two years. If the German Government so requires, the proceeds of the first sale of shares may be reserved for its use.

The balance of the capital cost of the German railway system (viz. 13 milliard gold marks) will be represented by ordinary shares, to be owned by the German Government and to be kept or sold by it as it prefers.

ARTICLE II.—*Administration and management*

The company will be administered by a board of directors of at least 18 members, who shall all be business men of experience or railway experts. Half of these will be appointed by the German Government and half by the trustee referred to below.

As soon as preference shares are issued to the public, the holders of these shares shall be entitled to elect four members of the board in place of four members appointed by the German Government.

The organization committee will also fix the duration of the terms of office of the directors of each class.

Of the nine members of the board of directors

appointed by the trustee, five may be German nationals.

The chairman of the board will be elected for one year by a three-fourths majority of the members of the board, and will be eligible for re-election as long as he possesses the necessary qualifications.

As soon as the preference shareholders shall elect directors, the chairman shall be chosen from the directors so elected.

He will, in addition to his vote as a member of the board, have a second or casting vote.

The general manager of the company shall be of German nationality.

He will not be eligible for a seat on the board. He will be appointed by a three-fourths majority vote of the board.

He may be removed by the same majority. If, however, his removal is requested by the commissioner (provided for in Article III below) on account of violation of the charter of the company or of failure to comply with the instructions of the board of directors, he may be removed by a simple majority vote of the board.

Whatever decisions may be taken with regard to the operation of the railways, it must be understood that any breaking up of the working of the system into local divisions must not in any event affect the financial and tariff unity of the undertaking.

ARTICLE III.—*Commissioner*

The railway commissioner shall be a person accepted in the railway world as being in the front rank.

He shall be appointed by a majority vote of the foreign members of the board of directors.

He shall not be a member of the board.

He will have an adequate staff of experts in railway matters and in accountancy.

The commissioner will have a general right of inspection over the whole railway system and all the railway installations and subdivisions, either in person or by deputy.

He shall also be entitled to receive all reports, statistical and financial returns, proposals for extra-routine expenditure whether on "capital" or "revenue" account, for changes in tariffs or for the concession of exceptional rates, and the like, which are of such a nature as would normally require the sanction of the general manager.

The railway commissioner will further be entitled to call for any other reports, returns or statistics which he may consider necessary in order to enable him to form an independent opinion. All this information shall be furnished promptly, fully and accurately at his request. If any measure in connection with construction, operations or tariffs tends, substantially to menace the rights or interests of the bondholders or of the Reparation Commission, as defined below, and in particular to endanger the payment at the due dates referred to in Article V below, he shall discuss the question with the general manager. If he cannot persuade the latter to change his line of conduct he must lay the question before the managing board, in order that it may take any measures it may deem necessary.

If the service of the bonds hereinafter mentioned

is in jeopardy, the commissioner shall have regard to the provisions for the security of the bondholders hereinafter contained.

The expenses of the railway commissioner and his staff shall be an operating charge upon the receipts of the railways.

ARTICLE IV.—*Bonds*

The company shall forthwith, after its creation, issue without payment and for the purpose of reparation, to a trustee appointed by the Reparation Commission, first mortgage bonds to a nominal amount of 11 milliard gold marks, carrying interest at 3 per cent per annum for the first financial year of the company, at 4 per cent plus a bonus of 25,000,000 for the second, 5 per cent for the third and subsequent years, and to be amortized by a sinking fund as hereinafter provided.

Payment of these bonds shall be guaranteed by the German Government, and they shall be signed both on behalf of the company and by the Finance Minister acting on behalf of the German Government.

These bonds shall be secured by a first registered mortgage or charge on the corpus and revenues of all immovable property used by or belonging to the company present or future, and by a first floating charge on all its fixed and movable plant, rolling stock and all installations. The company shall be authorized by the concession to create this mortgage and charge, the duration of which shall not be limited to the period of the concession.

This mortgage and this first floating charge shall be expressed to be in favor of the trustee to be

appointed by the Reparation Commission, provided always that the company and the German Government shall be entitled at any time, with the consent of the trustee, to sell or dispose of any particular property used by the railway company which may be considered to be no longer needed by the latter, upon such terms as to the application of the proceeds of the sale as may be agreed upon by the trustee.

The service of the bonds shall be assured by the following payments which shall be made to the trustee from the gross receipts of the company and before the ascertainment of any net profits ; that is to say :

	Gold marks
For the first financial year of the company .	350,000,000
For the second financial year	465,000,000
For the third financial year	550,000,000
For the fourth and subsequent financial years.	660,000,000

If in any year the German railways fail to realize receipts sufficient to allow of the payments above mentioned (it being understood that the company may draw upon whatever reserves may be available for this purpose until such reserves are exhausted), the railway commissioner shall have the right to take such action as the trustee for the bondholders may consider is necessary to protect the rights of the bondholders, including the right to operate, to lease, or to sell all or any of the railways and property subject to the mortgage or charge of the bonds.

From and after the end of the fourth year from the date of the formation of the company, the bonds shall be amortized, under the conditions to be determined by the trustee with the approval of the Repara-

tion Commission, by the application in each year of such part of the annual payments above mentioned as shall not be required for the interest on the bonds.

The German Government and the company shall also be entitled at any time to pay to the trustee sums additional to the above payments with the authorization of the Reparation Commission which shall ascertain from the transfer committee that the transfer of these additional funds does not disturb the transfer of the annual payments. Any sums so paid shall be applied first to the discharge of any interest in arrear and next upon six months' public notice in redeeming at par all or any part of the bonds for the time being outstanding.

The Reparation Commission, shall be entitled, with a view to the mobilization of the bonds, to divide the same in any manner which it may think expedient into different classes with different rights—as to priority of charge, rate of interest, repayment of capital, and otherwise—against the annual payments to be made by the company, and to issue to the public, upon such terms and generally in such manner as the commission may think proper, bonds, debentures, debenture stock, certificates of indebtedness or other securities of any nature secured upon the whole or any part of the bonds.

The company shall not be able to issue other bonds than those referred to above without the authorization of a three-fourths majority of the members of the board, of which majority two must be foreigners.

All payments of interest and capital in respect of

the bonds shall be free from all German taxation, except in so far as the persons entitled thereto may be liable under German law to the payment of German direct taxation.

Subject as herein provided, the form of the said bonds and all provisions as to the enforcement and repayment thereof, including drawings and giving time for payment, shall be settled by the trustee with the approval of the Reparation Commission.

ARTICLE V.—*Enforcement of Government guarantees*

If the company shall at any time make default in meeting the service of the bonds, the trustee may in lieu of or in addition to the measures mentioned in the last preceding article present the accrued coupons or any bonds due for repayment to the commissioner of controlled revenues, who shall pay them at their face value out of the portion of the receipts of the assigned revenues falling to the share of the German Government. The coupons and bonds so paid shall be included at their face value in the repayments made by the commissioner of controlled revenues to the German Government. The amounts so paid may only be repaid by the company to the Government after the necessary provision has been made for the current and the next coupons on the bonds and for the fixed dividend for the current year on the preference shares.

ARTICLE VI.—*Transportation tax*

The company shall on behalf of the Government pay to the Reparation Commission the proceeds of

the transportation tax as at present levied, *i.e.* a tax of 7 per cent on the gross receipts from all freight traffic other than coal, and a tax of 10 per cent to 16 per cent, according to class, on the gross receipts from all passenger traffic. This payment shall be made during the first and each of the following years of the concession and until the conclusion of any extension, even if in the course of the concession the whole of the bonds have been paid off.

The rate of the transportation tax shall not be reduced during the whole of the concession. The proceeds of the tax may be employed by the trustee to secure the issue of a special series of bonds for 3 milliard gold marks or thereabouts.

ARTICLE VII.—*Financial arrangements*

The bank account shall be kept at the new bank. Payments by the company hereinbefore prescribed shall be paid to the account of the railway commissioner. The latter shall transfer these sums to the credit of the agent for reparation payments.

ARTICLE VIII.—*Anticipatory redemption of bonds*

If all the first mortgage bonds should be redeemed before the expiration of the term of the concession by special subsidy by the German Government to the company, the Government shall be entitled to require that the functions of the railway commissioner hereinbefore mentioned shall come to an end and that the foreign directors shall be replaced by German directors. In default of other arrangements the transportation

tax shall continue to be paid to the Reparation Commission.

The German Government shall in that case also have the right to purchase or repurchase the preference shares at par, plus dividend and arrears of dividend if accrued.

ARTICLE IX.—*Organization committee*

A temporary committee with the title of the "Organization Committee of the German railway company" shall be constituted in order to work out, subject to the foregoing provisions, the details necessary for the creation of the German railway company and the execution of this plan. The committee shall consist of two delegates appointed by the German Minister of Railways, the railway specialists, Sir William Acworth and M. Leverve, who are familiar with the discussions which have led to the adoption of this scheme, or a nominee or nominees to be appointed by them jointly, together with a fifth member of neutral nationality to be chosen by the four thus appointed, or, in default of such choice, to be appointed by the Reparation Commission.

This organization committee will come to an end as soon as may be after the railway company has been constituted, the railway commissioner appointed and this plan has been put into operation. The expense of the committee and of their staff shall be an operating charge upon the receipts of the German railways.

ARTICLE X.—*Arbitration*

The law to be enacted by the German Parliament shall provide that so long as the functions of the railway commissioner hereinbefore mentioned shall not have come to an end, if any dispute or difference should arise between the Reparation Commission or any Government represented thereon, on the one side, and the company and the German Government, or either of them, on the other side, or between the company and the German Government, as to the interpretation of any provision of the said law, or of the charter of the company, or of this plan, or as to anything to be done under any of them respectively, whether in respect of the capital and obligations of the company or of its external or internal management, or otherwise howsoever, the same shall be referred to the decision of an arbitrator who, if the German Government so desires, shall be of neutral nationality to be nominated by the president for the time being of the Permanent Court of International Justice, and the decision of the arbitrator so appointed shall be final.

ANNEX NO. 5 TO THE REPORT
OF THE FIRST COMMITTEE OF EXPERTS

PLAN FOR INDUSTRIAL DEBENTURES

THE AMOUNT AND FORM

I. The German Government shall provide bonds or debentures of industrial concerns to a total nominal

value of 5 milliards of gold marks, bearing 5 per cent interest and 1 per cent for sinking fund per annum. These bonds shall be the individual obligations of the several concerns and shall be secured as to principal, interest and sinking fund payments by a first mortgage on the plant and property of the respective concerns making them.

The term " industrial concerns " shall include not only manufacturing concerns but navigation, mining and any other similar concerns which the organization committee may indicate.

DELIVERY TO TRUSTEE

II. The mortgage bonds or debentures above provided for, with suitable coupons covering the interest payments, shall be delivered by the German Government to the trustee to be appointed by the Reparation Commission, who will hold them, collect the coupons thereon, paying the proceeds into the account of the agent for reparation payments, or dispose of them in whole or in part from time to time under the orders of the Reparation Commission. The debtor may make proposals to the trustee for their immediate or gradual redemption, and the committee recommends that the trustee be empowered to give preference to such proposals of redemption, and especially those of which the redemption would be effected by the use of foreign currencies, before offering such bonds in the open market or otherwise. In the event that no proposals of a satisfactory plan of redemption are made to the trustee by any individual maker of the bonds within six months after such bonds shall have

been delivered to him by the German Government, then the trustee, in his discretion, but with due regard to the protection of the credit of the debtor, shall be free to dispose of the same in such manner and on such terms as the Reparation Commission may authorize.

GUARANTY BY GERMAN GOVERNMENT

III. The German Government shall guarantee the principal, interest and sinking fund payments on such bonds ; in consequence, in case of default the matured coupons can be presented to the commissioner of controlled revenues, who shall purchase them at their nominal value, by means of the funds under his control which are destined to be paid over to the German Government. The commissioner will include the coupons for their nominal value in the "reversements" to the German Government, which will have recourse against the defaulting debtor.

The German Government might, by means of subsidies, encourage the repurchase of the bonds by the mortgagors and thus free itself from its guaranty.

TAX-EXEMPTION PROVISION

IV. The said bonds and mortgages until redeemed shall be exempt from taxation in Germany, unless they shall be held by German nationals, in which case they shall be taxed like other similar bonds and mortgages so held by German nationals and without discrimination.

TEMPORARY ORGANIZATION COMMITTEE

V. A temporary organization committee shall be formed for the purpose of taking all necessary measures within the scope of the foregoing plan and for fixing the details of organization. This committee shall include a representative of the German Government, a representative of industry, two members appointed by the Reparation Commission and a fifth member of neutral nationality to be chosen by the four thus appointed, or in default of such choice to be appointed by the Reparation Commission.

POWERS OF THE ORGANIZATION COMMITTEE

VI. (a) The organization committee shall have all powers to work out the details of the plan in such form as may be fair alike to the German Government, to the industrial concerns and to the Reparation Commission, bearing in mind that it is the purpose and intent of the plan to insure for reparations account the payment of the 5 milliards of gold marks with interest thereon at 5 per cent per annum and a sinking fund of not less than 1 per cent thereon, which in and of itself will determine the maturity of the bonds.

(b) The organization committee shall have the power to determine the form and character of the mortgages, and, in case the concerns are too small to make individual mortgage issues practical and desirable, the committee shall have the power to devise some method of handling them, or may waive them altogether, provided the total sum of 5 milliards is maintained.

ANNEX NO. 6 TO THE REPORT
OF THE FIRST COMMITTEE OF EXPERTS

THE TRANSFER OF REPARATION PAYMENTS FROM
GERMAN CURRENCY INTO FOREIGN CURRENCY
AND THE USE OF BALANCES NOT TRANSFERRED

TRANSFER COMMITTEE

I. The plan provides that all payments for the account of reparations, however derived, are to be first made in the form of deposits in the bank, provided for in the plan, to the credit of "The agent for reparation payments". The withdrawals from this deposit shall be made by the agent for reparation payments only, under the direction of a committee composed of five members known as "the transfer committee".

COMPOSITION AND SELECTION OF MEMBERS

II. The transfer committee shall be composed of six members ; the agent for reparation payments shall be a member and the chairman ; the other five members shall be persons qualified to deal with foreign exchange questions. They shall consist of an American member, a French member, an English member, an Italian member and a Belgian member. Each of them shall be appointed by the Reparation Commission, after the member of the general board of the bank of the same nationality has been consulted.

COOPERATION OF THE BANK

III. The committee will be in contact with the president and the commissioner of the bank.

POWERS OF THE COMMITTEE

IV. The committee shall have power, and it shall be its duty : (a) To apply such bank balances for payments for deliveries in kind and payments under the reparation recovery act, in accordance with the program established periodically by the Reparation Commission, after consultation with the transfer committee as to the character and amount of such deliveries.

(b) To convert these bank balances into foreign currencies from time to time, and after conversion to remit them in accordance with the instructions of the Reparation Commission.

Both the foregoing powers (a) and (b) to be exercised to the extent to which, in the judgment of the committee, the foreign exchange market will permit, without threatening the stability of the German currency.

(c) To invest from time to time in bonds or other loans in Germany such amounts as the committee may deem wise. The committee shall proceed to make these investments as soon as the amount of the credits exceeds the sum which the bank will keep on deposit. On the other hand, the committee may sell the bonds which it has acquired or liquidate the loans which it has granted, whenever in its opinion the sums may be converted into foreign exchange or the bank can accept additional deposits.

RESTRICTION ON PURCHASE BY THE CREDITORS

V. The goods supplied by Germany to the creditor countries under paragraph IV (*a*) above and paid for by the bank as above provided shall be for the sole use of the countries receiving them for their internal requirements, including the requirements of their colonies and dependencies. The goods so delivered shall not be exported from the country receiving them, except by agreement between the committee acting unanimously and the German Government.

VI. In addition to its powers under paragraph IV, the committee may, on the instructions of the Reparation Commission and at the request of the creditor States, by debiting their accounts, transfer marks to private individuals for the purpose of making purchases in Germany, such reinvestment not to be of a temporary character, and such property being of classes contained in a schedule agreed to between the committee and the German Government and modified from time to time by similar agreement. In arriving at such agreement the German Government shall be required to have due regard to the necessity for making maximum payments to its creditors, but it shall also be entitled to have regard to maintaining its control of its own internal economy.

COOPERATION BY THE GERMAN GOVERNMENT AND
THE BANK

VII. The German Government and the bank shall undertake to facilitate in every reasonable way within their power the work of the committee in making

transfers of funds, including such steps as will aid in the control of foreign exchange. When the committee is of the opinion that the bank's discount rate is not in relation to the necessity of making important transfers, it shall inform the president of the bank.

ATTEMPTS TO DEFEAT TRANSFER

VIII. In the event of concerted financial maneuvers either by the Government or by any group, for the purpose of preventing such transfers, the committee may take such action as may be necessary to defeat such maneuvers; and in such circumstances it may suspend the operation of paragraph X, may accumulate the funds or employ them in the purchase of any kind of property in Germany.

TAX-EXEMPTION PROVISION

IX. The German Government shall not tax the deposits in the bank, or goods purchased for the creditor countries pending removal, nor any securities or loans representing investment of funds pending transfer, nor any property purchased under the provisions of the paragraph next preceding. This exemption does not apply to property purchased under paragraph VI, but on the other hand, there should be no tax discrimination against such property.

PROVISIONS FOR LIMITATION OF ACCUMULATION

X. (a) When the accumulation of funds not transferable under the provisions of subdivisions (b) and (c) of paragraph IV shall have reached the sum of 5

milliard gold marks (whether represented by bank deposits or loans), the payment for treaty charges provided for shall be reduced to such an amount as will cover the transfers and payments provided for under subdivision (b) and (c) of paragraph IV without additional accumulation. Such partial suspense of Germany's obligations shall be operative only during the period that the conditions of transfer necessitate, and the standards of payment laid down in the plan shall be resumed at any time when they can operate without the limits of accumulation herein laid down being exceeded.

(b) The committee shall have power to suspend accumulation before reaching 5 milliard gold marks, if two-thirds of its members are of the opinion that such accumulation is a menace to the fiscal or economic situation in Germany or to the interests of the creditor countries.

(c) The committee shall, by a two-third majority, have power to waive the limit accumulations under the conditions provided for in paragraph VIII.

ANNEX NO. 7 TO THE REPORT OF THE FIRST COMMITTEE OF EXPERTS

NOTE ON THE CURRENCIES CIRCULATING IN GERMANY IN JANUARY 1924 ¹

CHAPTER I.—PAPER-MARK CURRENCY

A. LEGAL TENDER

I. *Reichsmarks*.—Reichsmarks are issued by the

¹ In the English text of this document the English system of numeration is followed throughout.

Reichsbank under a privilege granted to it by the banking law of March 14, 1875. In 1913 the circulation of paper marks amounted to 2.1 milliard ; on January 31, 1924, it had reached the figure of 483.7 trillion (English) paper marks, representing 483.7 million gold marks at the rate of 1 gold mark = 1 billion paper marks.

2. *Notes of private banks.*—Banks which at the time of the promulgation of the law of March 14, 1875, had the right to issue notes, have retained this privilege. The number of these banks, which was originally 32, has decreased progressively ; at the present time there are only four private banks, namely : Bayerische Banken, Sächsische Bank, Badische Bank, Württembergische Notenbank.

The total circulation of notes issued by these four institutions amounted in 1913 to 140,000,000 gold marks. At the end of January 1924, it represented about 100,000 gold marks.

3. *Reichskassenscheine.*—These currency notes were issued at the time of the formation of the Reichsbank (1875) in order to make it possible to place the fiduciary circulation on a sound basis by means of the withdrawal of the State notes then in circulation. The issue was originally fixed at 120,000,000 gold marks, corresponding exactly to the war treasure (in gold) deposited at Spandau. The circulation, which reached the figure of 320,000,000 in 1920, progressively decreased until August 1923, when it still amounted to 200,000,000 gold marks. At that date the Reichskassenscheine in circulation were completely withdrawn.

4. *Darlehenskassenscheine.*—(Bonds issued by the

Darlehenskassen during the war.) The issue reached its maximum figure in October 1922 (14 milliard paper marks) ; these bonds ceased to figure in the statements as from August 1923, when the circulation amounted to only 11 milliard paper marks, corresponding to less than 10,000 gold marks.

B. AUXILIARY INSTRUMENTS OF PAYMENT

1. *Issue of secured notgeld.*—The issue of notgeld (emergency currency) was regulated by the law of July 17, 1922. This currency was issued with a view to supplementing that issued by the Reich, the Reichsbank and the private banks of issue, the total value of which in circulation was constantly decreasing as a result of the fall of the mark. The previous authorization of the Minister of Finance was necessary. The notgeld was to be secured by a deposit in fixed values, earmarked in favor of the Reich Minister of Finance, and corresponding to the amount placed in circulation, less the actual or estimated expenses of issue. This asset was to remain at the Reichskreditanstalt at Berlin, which would allow interest at 2 per cent less than the rate of discount of the Reichsbank. The cover for the notgeld might also consist of three months' Treasury bonds ; but in this case it was the Reichsbank which would issue the notgeld and accept the deposit in Treasury bonds offered as guarantee.

Authorization to issue notgeld was granted to public and private organizations for a total figure which at the end of 1923 amounted to 7.6 trillion paper marks, corresponding to 7.6 million gold marks. The circulation of this notgeld amounted on Decem-

ber 31, 1923, to 3.4 trillion paper marks ; that is, 3.4 million gold marks. An endeavor has since been made to withdraw the notgeld from circulation ; a decree of January 2, 1924, prescribed the complete withdrawal in certain unoccupied territories. On January 31, 1924, the circulation amounted to 1.4 trillion paper marks, or 1.4 million gold marks.

2. *Issue of unsecured notgeld.*—Numerous emergency currencies have been issued without authorization from the German Government, and without the formation of a guarantee deposit, both by public and private organizations and even by private individuals.

The amount of this notgeld issued without authorization or guarantee and in circulation at the end of January 1924, is estimated by the German Government as follows :

	Gold marks
In unoccupied territory . . .	27,600,000
In occupied territory . . .	132,000,000

3. *Railway notgeld.*—In order to cover the working deficit, the Reich railways issued 114 trillion paper marks during 1922 and 1923. This currency was secured by a Reich deposit at the Reichsbank of 90,000,000 rentenmarks. At the end of January 1924, 56,000,000 were still in circulation.

CHAPTER II.—INSTRUMENTS OF PAYMENT IN GOLD OR AT A FIXED VALUE

1. *Rentenmark.*—The rentenbank was created by the decree of October 15, 1923. The method of creation and operation is known.

The issue of notes in rentenmarks began on November 15, 1923.

According to the balance-sheet of the rentenbank on January 31, 1923, the amount issued at that date was 1,374,000,000 rentenmarks.

The introduction of the rentenmark has stopped the issue of notgeld of fixed value.

2. *Dollar treasury bonds (Dollarschatzanweisungen).*—The law of March 2, 1923, authorized the issue of dollar Treasury bonds for a total amount of \$50,000,000 (210,000,000 gold marks). These bonds, issued in denominations of from \$5 to \$100, do not bear interest, but are redeemable in gold at 120 per cent on April 15, 1926.

These Treasury bonds have been fully subscribed. They have been used in Germany as a means of payment.

3. *Gold loan (Wertbeständige Anleihe).*—This loan authorized by the law of August 14, 1923, is for a total sum of 500,000,000 gold marks, which has been fully subscribed. The bonds are expressed in dollars. The small denominations of from one-tenth to \$5 do not bear interest and are redeemable at 170 per cent on September 2, 1935. Bonds for \$10 or more bear 6 per cent interest and are redeemable at par on the same date. These large denominations were issued first for a total sum of 164,000,000 gold marks. Subsequent issues of large denominations raised this figure to 204,000,000 gold marks.

In October 1923, the monetary situation having become intolerable on account of the fall of the paper mark, and wage-earners having insisted upon being paid in currency of fixed value, the Reich decided (the

preparations for the issue of the rentenmark not being sufficiently advanced) to issue small denominations of the gold loan.

These small denominations were issued up to a total amount of 296,000,000 gold marks, 4,000,000 of which were exchanged against rentenmarks in January 1924, in accordance with the privilege granted to the holders in this respect.

As will be seen later, 10,000,000 of this gold loan have been assigned as partial security for the notgeld of a fixed value issued by the railways.

At the end of January 1924, therefore, the circulation was as follows :

			Gold marks
Large notes	.	.	194,000,000
Small notes	.	.	292,000,000
			<hr/>
Total	.	.	486,000,000

4. *Notgeld secured by 6 per cent Treasury bonds (6 per cent Schatzanweisungen).*—Since the small gold loan certificates proved insufficient for the monetary circulation, the Provinces, towns, chambers of commerce and the larger industrial undertakings were given authority to create emergency currency on a gold mark basis, to be covered by gold loan certificates of large denominations. Owing to the scarcity of the latter, the authorities issuing notgeld were given permission to provide cover in the form of 6 per cent Treasury bonds expressed in dollars and gold marks specially created for this purpose by the decree of October 20, 1923. These bonds fall due on December 1, 1932, and are redeemable at par in German currency on a gold basis.

The total amount of notgeld thus secured (exclusive of the notgeld issued by the railways and to which we will refer later) stood at 110,000,000 gold marks on January 31, 1924.

This notgeld is to be gradually withdrawn from circulation against redemption in loan bonds or German currency. Redemption was to begin on January 15, 1924, and it is hoped that the full amount will have been called in not later than April 1, 1924.

5. *Treasury bonds and interim bonds issued by the States.*—Certain States issued fixed value loans, some of the certificates for which were of such small denominations that they still serve as instruments of payment. The total value of these bonds amounts to about 50,000,000 gold marks. Attempts are being made to recall these small denominations by converting them into larger denominations.

6. *Certificates issued by the banks of Hamburg and Schleswig-Holstein.*—Two banks, the Hamburger Bank von 1923 A.G. and the Schleswig-Holsteinische Goldgirobank A.G. were authorized by the Reich Minister of Finance to deliver, in exchange for currencies, “discount certificates” (Verrechnungsscheine), which still serve as instruments of payment. It is the intention of the German Government to dispense with these gold certificates as soon as a gold currency has been reinstated. The Hamburger Bank issued certificates to the amount of 25,000,000 gold marks. No particulars are available regarding the amount issued by the Schleswig-Holsteinische Goldgirobank, but the figure is inconsiderable.

7. *Notgeld issued by the railways.*—In order to cover their deficit, the German railways were authorized to

issue, in addition to the paper mark notgeld referred to above, notgeld having stable value to the amount of 200,000,000 gold marks—10,000,000 of this issue were secured by gold loan bonds, as explained above, the remaining 190,000,000 being secured by 6 per cent Treasury bonds, as already stated. The notgeld issued by the railways amounted to 131,900,000 on January 31, 1924. This emergency currency is to be withdrawn from circulation by means of a loan to be issued later by the railways.

TABLE OF INSTRUMENTS OF PAYMENT IN CIRCULATION
IN GERMANY IN JANUARY 1924

	Approximate value in millions of gold marks ¹
I. Instruments of payment expressed in paper marks :	
Reichsbank notes (as per return dated 31/1/24)	483.7
Notes of the four private banks of issue	0.1
Notgeld issued by the railways and secured by a deposit of 90,000,000 rentenmarks at the Reichsbank .	56.0
Notgeld issued against the deposit of security in currencies	1.4
Notgeld issued without cover—	
In occupied territory	132.0
In unoccupied territory	27.6
Total	<hr/> 700.8

¹ Calculated on the basis of 1 gold mark = 1 billion paper marks.

	Approximate value in millions of gold marks ¹
II. Instruments of payment expressed in gold or having fixed value :	
Rentenmarks (as per rentenbank return of 31/1/24)	1374·0
Dollar Treasury bonds (Dollar- schatzanweisungen, law of March 2, 1923)	210·0
Gold loan (Wertbeständige An- leihe, law of August 14, 1923)	486·0
Notgeld secured by 6 per cent Trea- sury bonds (6 per cent Schatz- anweisungen, law of October 20, 1923)	110·0
Treasury bonds and interim bonds issued by the States	50·0
Certificates issued by the banks of Hamburg and Schleswig-Holstein (Verrechnungsscheine)	35·0
Notgeld issued by the railways and secured by 6 per cent Treasury bonds (10,000,000 of which are secured by gold loan)	131·9
Total	2396·9
III. Denominational currency in rentenpfennigs	158·0
Grand total	3255·7

NOTE.—This total does not include the foreign currencies at present in Germany, which, according to the estimate made by the Second Committee of Experts, would amount to 1,200,000,000 gold marks, a figure which has been confirmed by a German authoritative source.

¹ Calculated on the basis of 1 gold mark = 1 billion paper marks.

ANNEX NO. 8 TO THE REPORT OF THE FIRST COMMITTEE OF EXPERTS

PROVISIONAL SURVEY OF THE BUDGET FOR 1924*

I. GENERAL ADMINISTRATION OF THE REICH

A. ORDINARY BUDGET

Revenue	In millions of—		Expenditure	In millions of—	
	Gold marks	Pounds		Gold marks	Pounds
1. Taxes on property, traffic, trade and transfer (direct taxes) . . .	4004	2002	1. Interest on, and amortiz. of debt of Empire . . .	156	78
2. Custom and excise duties (indirect taxes) . . .	1080	540	2. Provision for invalids, war pensions, etc.	810	405
3. Non-tax revenues from public services	60	30	3. Army and Navy	450	225
			4. Police	208	104
			5. Industrial and cultural purposes . . .	28	14
			6. Unemployment benefit	500	250
			7. Social and other expenditure	360	180
			8. Finance and taxation departments .	380	190
			9. General administrative expenses other than the above	250	125
			10. Assignments to the States and communes	1800	900
Total of ordinary revenues	5144	2572	Total of ordinary expenditure	4942	2471
					12355

B. EXTRAORDINARY BUDGET

1. Revenue from the mint	90	45	225	1. For war damages and removal of effects of the war	6	03	15
2. Other revenues	40	20	100	2. Public buildings	44	22	110
				3. Settlement of war expenditure	20	10	50
				4. Settlement of expenditure for the Ruhr	60	30	150
Total of extraordinary revenues	130	65	325	Total of extraordinary expenditure . .	130	65	325
Total of A and B	5274	2637	13185	Total of A and B	5072	2536	12680

II. EXECUTION OF THE TREATY OF VERSAILLES

1. Cash reparation payments (Discharge of debt due to the Reichsbank for redemption of an Ex- chequer bill given to Belgium.)	52	2.6	13.0
2. Clearing office payments	6	0.3	1.5
3. Cost of armies of occupation	360	18.0	90.0
4. Rhineland Commission	34	1.7	8.5
5. Other inter-Allied commissions, includ- ing Reparation Commission	18	0.9	4.5
6. Restitution, substitutions, and dis- mantlement costs	10	0.5	2.5
7. Home expenditure incurred by the carrying out of the Treaty of Versailles	160	8.0	40.0
Total of expenditure	640	32.0	160.0

BALANCE

I. General administration of the Reich	.	.	.	.	.	5072	253·6	1268·0
III. Execution of the Treaty of Versailles	.	.	.	.	.	640	32·0	160·0
Total of expenditure	.	.	.	.	.	5712	285·6	1428·0
Revenues	.	.	.	.	.	5274	263·7	1318·5
Deficit	.	.	.	.	.	438	21·9	109·5

* The figures of this table can only serve as a preliminary estimate and are given with all reserve. This estimate of the revenues assumes complete restoration of economic unity between occupied and unoccupied territory, renewed administrative and fiscal supremacy in occupied territory on the part of the Reich and the component States, that the taxes to be levied according to the general laws of the Reich and the States are once more directed into their treasuries.

ANNEX NO. 9 TO THE REPORT
OF THE FIRST COMMITTEE OF EXPERTS

COMPARATIVE POSITION OF DIFFERENT
INCOMES DRAWN FROM DIVIDENDS IN
THE YEARS 1920-21, 1923-24 and 1924-25

QUESTION SUBMITTED TO THE GERMAN GOVERNMENT
BY THE FIRST COMMITTEE OF EXPERTS

Assume four men with incomes in gold marks : 15,000, 100,000, 500,000, 1,000,000 ; (a) wholly from dividends of German industrial companies ; (b) one-half from German and one-half from foreign companies. What amount of income tax (or its substitutes) plus capital tax will be payable on the scales for 1920-21, 1923-24, 1924-25, respectively ?

REPLY OF THE GERMAN GOVERNMENT

For the following reasons it is impossible to make reliable estimates of the kind desired :

1. Because the fiscal burden for 1920-21 cannot be calculated, owing to the influence of the depreciation of the currency.
2. Because no assessment exists for 1923 based on sliding scale rates for that year ; indeed, for 1923 prepayments and payments of balance were collected which were regularly calculated on a coefficient of the 1922 taxes and were therefore not entirely immune from the influence of the depreciation of the currency.
3. Because no income tax levied on a sliding scale

exists so far for 1924 ; the prepayments for 1924 are collected more according to external standards ; the actual income for 1924 will not be assessed until 1925, when it will be based upon a tariff which will be determined by law in the course of the year 1924.

Particulars concerning the form of the taxes will be found in the memorandum transmitted (see for 1920-21 : English text, pages 81, 96 ; French text, pages 81, 97 ; for 1923-24 : English text, pages 83-84, 96 ; French text, pages 84, 97). Reference should be made to the statement concerning the budget estimates of the wages tax and the repayments on the income and corporation taxes for 1924 transmitted as V (a) II 1480, of February 16, 1924.

It should further be pointed out that income from dividends to the amount mentioned existed in Germany before the war to a limited extent only and is unlikely to be found after 1922, owing to economic developments during the period of depreciation of the currency.

As early as 1920 there were only six taxpayers in Germany who had an income from investments of from 3,000,000 to 10,000,000 paper marks, that is, from 200,000 to 667,000 gold marks, and 66 with an income from investments of from 1,000,000 to 3,000,000 paper marks, that is, about 67,000 to 200,000 gold marks. From about the middle of 1922 income from investments had practically disappeared.

In view of the circumstances mentioned above, any estimates are attended with exceptional difficulties. An attempt is made below to employ available bases for valuation as required in the questionnaire.

The estimates given in the inclosed table showing the charge on incomes from dividends of 50,000,

100,000, 500,000 and 1,000,000 gold marks fulfil the conditions set forth in the questionnaire—

(a) That the whole income is drawn from dividends of German industrial companies.

(b) That half the income is drawn from German and half from foreign industrial companies.

It was necessary, in drawing up this table, to include in the calculation of the charges on income derived from dividends of German industrial companies, the taxes which had to be paid by the German companies if they distributed dividends to the amounts in question ; it must not be forgotten that this tax is deducted before the distribution of the dividends. In converting the income in gold into paper marks and the taxes in paper marks into gold marks, the rate of the dollar has been used as the basis. This was possible because the income is indicated in gold, and therefore the calculation of the tax at the dollar rate affords a basis for comparison.

In making the calculation the following assumptions have been made :

I. *For 1920-21.*—The dividend has been paid to the taxpayer in 1920. The tax paid by the company has first been deducted from the profits which the company made in 1919 and on which it paid the tax in 1920. A further prior charge consists of the 10 per cent tax on revenue from capital which was deducted from the German dividends of the taxpayer at the time of their receipt in 1920 and which he paid in 1921 for his foreign dividends. From the remaining revenue, after deduction of the tax on revenue from capital, the taxpayer has paid his income tax for 1920 according to schedule. In estimating the actual

fiscal burden, account has been taken of the fact that the income was obtained in the year 1920, that the corporation tax and the tax on revenue from capital were paid at the time of receiving the dividends, that is, also in 1920, and that on the other hand the tax on revenue from capital in respect of foreign dividends and the income tax were not paid until 1921, and were therefore paid in a depreciated currency. On the basis of the average dollar rate, one gold mark was in 1920 equivalent to 15 paper marks and in 1921 to 24.9 paper marks.

Example 1.—Let us assume the income from dividends in German companies in 1920 to be 50,000 gold marks = 750,000 paper marks. Before distributing 750,000 paper marks, a company in 1920 had to pay an average tax of 127,500 paper marks. The 750,000 paper marks due to the person receiving dividend were, upon receipt, reduced by 10 per cent ; that is, by 75,000 paper marks. In 1920, therefore, 202,500 paper marks were paid in taxes = 13,500 gold marks. From the remaining 675,000 paper marks he had to pay the sum of 356,600 paper marks in income tax = 14,321 gold marks in 1921. The total charge was therefore 27,821 gold marks.

Example 2.—Let us assume the income from dividends in German companies in 1920 to be 25,000 gold marks = 375,000 paper marks, and from foreign companies 25,000 gold marks, making a total of 50,000 gold marks = 750,000 paper marks. Before distributing 375,000 paper marks, German companies had, in 1920, to pay an average tax of 63,750 paper marks = 4250 gold marks. The 375,000 paper marks in German dividends due to the recipient were, upon

receipt, reduced by 10 per cent ; that is, by 37,500 paper marks = 2500 gold marks.

In 1920, therefore, 6750 gold marks were paid in taxes. In 1921 the person drawing dividends had in the first place to pay a 10 per cent tax on revenue from capital on the 375,000 paper marks ; that is, 37,500 paper marks = 1506 gold marks. Furthermore, after deduction of the tax on revenue from capital he had to pay on the remaining 675,000 paper marks an income tax of 356,600 paper marks = 14,321 gold marks. In this case the 1921 taxes thus amount to 15,827 gold marks. Including the 1920 taxes the total charge is therefore 22,577 gold marks.

II. *For 1923-24.*—It is assumed that the dividends for 1923 have been distributed to the shareholders. In the total prior charge the tax on fortunes has not been taken into account. Only the corporation tax which under the law of March 20, 1923, on the depreciation of currency, was paid by the company for the business year 1922, which year was taken as the basis for the distribution of dividends, has been indicated as the prior charge. On the basis of the tariff the prior charge amounted to 45 per cent. Owing, however, to the great depreciation of currency in 1923, the gold value on the date of payment was insignificant. The prior charge has been indicated therefore at only 3 per cent, since the dollar rate at the time of the payment of the tax, that is, on April 25, amounted to 29,200, namely, about fifteen times the average dollar rate for 1922 (1885.78). In many cases, owing to delay in closing the balance sheet and to the consequent delay in paying the taxes, the prior charge was, as a result of the rapid depreciation of currency, much less than 3

per cent. In the case of the person receiving dividends, the tax indicated is that which he had to pay as increased repayments and payment of balance for 1923.

Since there was no proper assessment for income tax on a sliding scale for 1923, the payments of balance for 1923 have been determined according to the taxpayer's capacity to pay on the basis of his gold mark payments in 1923, and in certain cases on the basis of a lavish expenditure.

If, on the basis of the material at its disposal, the finance office can assume that the taxpayer had a gold mark income of 50,000 or 100,000 marks, a charge of at least 25 per cent may be allowed for.

If there are really cases of still higher incomes, a charge of 35 per cent on 500,000 gold marks and of 40 per cent on 1,000,000 gold marks will be paid. The total charge therefore amounts to 28 per cent in the case of incomes of 50,000 and 100,000 gold marks derived from dividends paid by German companies ; if half of the income is derived from foreign companies half of the prior charge constituted by the corporation tax does not come into consideration and the total charge therefore amounts to $26\frac{1}{2}$ per cent. For incomes of 500,000 gold marks the total charge represents 38 per cent or $36\frac{1}{2}$ per cent, for 1,000,000 gold marks 43 per cent or $41\frac{1}{2}$ per cent.

III. *For 1924-25.*—It is assumed that the dividend for 1924 is distributed to the shareholders. The prior charge indicated is the tax which the company has paid as corporation tax prepayments and payment of balance for 1923.

The example of 50,000 gold marks has been calculated as follows—1 gold mark was 449 paper marks,

according to the average rates of exchange of the dollar for 1922 ; 50,000 gold marks therefore equal 22,450,000 paper marks.

First prepayment (under the currency depreciation law of March 20, 1933), 20 per cent = 4,490,000 paper marks, paid on May 25 (1 gold mark = 12,190 paper marks) = 369 gold marks.

Second prepayment (under the law for increases of July 9–August 11, 1923), 600×10 per cent = 1,347,000,000 paper marks, paid on August 25 (value of the gold mark = 1,120,000) = 1203 gold marks.

Payment of balance on January 10, 1924 (under article I, section 2, of the second fiscal emergency decree), 0.60 gold mark on each 1000 marks of the 1922 fiscal debt ; the 1922 fiscal debt in respect of dividends amounted to 45 per cent of the sum of 22,450,000 paper marks indicated above, that is, to 10,102,500 paper marks. Consequently, the final payment of 0.6 per thousand in gold = 6061 gold marks. The total prior charge, therefore, amounts to 7633 gold marks.

In the case of the person receiving the dividend the only payments demanded are those to be paid as income-tax prepayments and as tax on fortunes in 1924. Ten per cent only is first deducted at the source from the revenue from investments as income-tax prepayment ; this is, therefore, 5000 gold marks on 50,000 gold marks. For the tax on fortunes it is assumed that the dividends paid by German companies average 1 per cent of the quoted value ; even this computation must, however, be too high for a great many German companies at the present time.

In the case of foreign companies it is assumed that the dividends amount to 5 per cent of the quoted

value of the share ; 50,000 marks in dividends from German companies, therefore, represent a quoted value of 5,000,000 marks.

For the shareholders' payments in respect of the tax on fortunes this is valued at only half the quoted value—that is, 2,500,000 marks—since the company itself has to pay a tax on fortunes for which the fortune is assumed to be at least the total quoted value of the shares.

On a total fortune of 2,500,000 marks the tax on fortunes amounts to 17,500 marks. The provisional charge on an income of 50,000 marks from dividends from German companies is therefore as follows :

	Gold marks
Tax on corporations	7,633
Deduction at the source from revenue from investments	5,000
Tax on fortunes	17,500
	<hr/>
Total	30,133

If half the dividends come from a foreign company, the charge in respect of the tax on capital is as follows:

Twenty-five thousand marks from German companies. Quoted value 2,500,000 (1 per cent interest), half of which is counted ; that is, 1,250,000 marks.

Twenty-five thousand marks from foreign companies. Quoted value 500,000 marks (5 per cent interest) counted in full, since the company does not pay the tax on fortunes in Germany.

The quoted value used for the tax on fortunes is therefore 1,750,000 marks and the sum paid in respect of the tax 11,375 marks.

As half of the dividends come from foreign com-

panies, the deduction at the source on half the revenue from investments in this case also provisionally does not come into consideration. The finance office is, however, entitled to collect repayments from the taxpayer, with due consideration to his requirements. No sum is, however, included in the inclosed table on this account ; for, as explained above, the calculations for 1924-25 constitute only provisional tax payments, which represent prepayments on the definitive income tax for 1924. For the 1924 income, the taxpayer will still be assessed at the beginning of 1925, and he will then have to make considerable postpayments, which are correspondingly higher in the case of income from foreign dividends from which no deduction at the source has been made in Germany. No sum could be included for postpayments, as the necessary regulations must first be enacted by law during the course of 1924 (in particular the rates of taxation).

Income in Gold Marks	Definitive Charge		Charge in respect of Corporation Tax and Tax on Fortunes ; Non-recurrent Charge in respect of Income Tax Prepayments, 1924-25
	Corporation Tax, Tax on Revenue from Capital, Income Tax, 1920-21	Corporation Tax, Income Tax, 1923-24	
50,000 *	27,821	14,000	30,133
50,000 †	22,577	13,250	17,691
100,000 *	57,586	28,000	60,266
100,000 †	47,098	26,500	37,133
500,000 *	295,707	190,000	313,830
500,000 †	243,267	182,500	194,415
1,000,000 *	593,357	430,000	627,660
1,000,000 †	488,477	415,000	388,830

* German companies.

† Half from German and half from foreign companies.

REPORT OF THE
SECOND COMMITTEE OF EXPERTS
COVERING LETTER

Dear Mr. Chairman,

I have the honor to present the unanimous report of the committee appointed by the Reparation Commission to inquire into the amount of German exported capital and to consider the means of bringing it back to Germany.

In laying before you the result of our labors may I be permitted in the name of the committee to express the hope that our work may assist in solving the problem involved in the execution of the treaty of peace.

I remain, yours faithfully.

R. McKENNA

The Chairman,
Reparation Commission

TEXT OF THE REPORT

In pursuance of a decision of the Reparation Commission of the 30th of November 1923, we were created a committee to consider the means of estimating the amount of German exported capital and of bringing it back to Germany. We were convened in Paris on the 21st of January 1924, and we have held altogether 38 meetings, first in Paris, then in Berlin,

and finally again in Paris. We have examined numerous witnesses and have availed ourselves of the services of trained economists, technical advisers and expert accountants. We have also studied the published works on the subject by well-known economists, and each member of the committee has furnished reports on particular problems.

Our estimates relate to the 31st of December 1923. Later events may, of course, have either increased or decreased the amount of German capital abroad.

In our investigation of the amount of capital owned by Germans in foreign countries, we were confronted by very considerable difficulties. There are many ways by which Germans can acquire capital abroad, but in most cases no precise figures can be given. It is nearly always a matter of estimate, and the utmost we could hope to do with any degree of certainty was to lay down limits between which the actual amount is to be found. The distance which divides these limits marks the want of precision of the material at our disposal.

One method of investigation, to institute an inquiry through bankers and business men in those countries in which German capital is believed to be deposited or invested, was rejected by us at the outset. We have availed ourselves of all information of a public or official character supplied from countries outside Germany, but we were of opinion that it would be neither proper nor useful to request the disclosure of specific transactions which in general would have been entered into under an implied condition of secrecy. Moreover, we felt that even though all obtainable information were freely given

to us, it must be extremely defective, as much German capital in foreign countries is certain in existing circumstances to be hidden in various ways under assumed names.

The method we have adopted is altogether different. Our first step was to form an estimate of the total value of German capital abroad at the outbreak of war.

Next we considered what was the net reduction in this total at the time of the Armistice. We took into account on one side the balance of trade, advances by Germany to her allies, loss by seizure and sequestration of property confirmed by the Versailles Treaty, and loss through depreciation of the value of property and securities. On the other side we considered the sales of German securities, the sales of gold, the accumulation of interest, and finally the effect on the trade balance of the imports into Germany from occupied territories. These imports were commodities either requisitioned without payment, or paid for, in the case of Belgium and Poland, largely by marks which remained in the country, and, in Rumania and occupied France, as well as in Belgium and Poland, by local currencies which the German Government caused to be printed and issued for the purpose.

Finally, starting from the basis of the remaining pre-war German assets, we examined in detail the various means by which Germans can have increased or diminished their capital abroad during the period from the Armistice to the close of the year 1923. The reliability of our final estimate depends upon the completeness of our examination of the different elements which make up the total of German foreign

acquisitions and of the various ways in which such acquisitions may have been expended.

The chief method by which Germans have acquired foreign assets since the Armistice has been by the sale of mark bank balances. Our estimate of the total sum under this head has been obtained by a procedure founded upon the principle that every foreign sale by a German of a mark bank balance creates at the moment of sale a corresponding holding of a foreign bank balance in Germany. The periodic totals of foreign balances shown in the books of the German banks were disclosed to us, and with the assistance of expert accountants we have been able to ascertain the net proceeds expressed in gold derived from the sale of marks. It is interesting to note that the foreign assets acquired in this way amounted to between seven and eight milliards of gold marks, the whole of which in consequence of the final devaluation of the mark was lost by more than one million foreigners who at one time or another were buyers of mark credits.

This figure is one of the credit factors in estimating the final total.

Other principal sources of German foreign assets have been the sale of goods, securities, real estate, precious metals and mark bank notes; interest accumulations, tourist expenditure in Germany, German holdings in ceded territories in Poland, Danzig, etc., foreign money expended by the Allied armies of occupation, remittances from Germans abroad, earnings of shipping, railway and canal freights for foreign goods in transit through Germany, insurance profits, etc.

On the other hand, German foreign assets have been expended on the purchase of goods imported, cash payments to the Allies, interest paid on German securities held abroad, German tourists' expenditure, etc.

On all these heads of receipt and expenditure, the German statistical records and estimates, official data, bankers' and business reports, and other similar evidence, have been subjected by us to the most critical scrutiny, and their reliability has been tested by our examination of witnesses and inspection of original sources of information. Our investigations and the evidence obtained led us to discard entirely the values of German imports and exports as stated in the official reports, and to revalue all commodities on the basis of the then current world prices, with such allowances as the special circumstances of German trade at the time may have rendered necessary.

After a close examination of all the factors which make up the total sum, we are of opinion that German capital abroad of every kind, including capital of varying degrees of liquidity and capital invested in participations in foreign companies and firms, and after taking into account all credit and debit items, was at the end of the year 1923 not less than 5·7 milliard gold marks and not more than 7·8 milliard gold marks, and we think that the middle figure of $6\frac{3}{4}$ milliard gold marks is the approximate total.

We draw special attention to the foreign currency in Germany, which, though not included in our valuation of capital held abroad, is so closely akin to a foreign asset that it must not be overlooked. It may indeed be said that this currency, the total of which

we estimate at not less than one milliard two hundred million gold marks, is a German holding in the most liquid form for conversion into foreign assets.

On the other hand, on a broad view of German financial capacity, the value of the property in Germany held by foreigners should not be left out of account. The annual yield from this property, whether in the form of rent, interest, or dividends, is at present inconsiderable and may at any time become subject to special taxation, particularly in the case of rent in respect of real estate purchased at the low prices current in recent years. We estimate, after very close study of the question, that the real estate and securities owned in Germany by foreigners represent a value of from 1 to 10 milliard gold marks.

The committee have thought it desirable to give in an annex to this report additional information in respect of their estimates of German assets abroad in 1914, as well as of the principal credit and debit factors, both during and since the war, that have gone to make up the final total of German capital abroad.

The second part of our inquiry was to investigate the means of bringing exported capital back to Germany.

The so-called flight of capital in this instance was in the main the result of the usual factors. It arose principally from the failure of the Government to bring its budget into proper relation, and, as a corollary of such failure, from the raising of large loans and the direct issue of paper money. Secondly, it was due to the action of speculators and timid investors who sold their marks against the currency of

other countries, while the exporters of goods retained abroad all that was possible of the proceeds of their sales. In the particular case under inquiry, however, the flight of capital was accentuated by the attitude of the people of Germany toward payments to her war creditors, and was marked by new and ingenious devices and schemes for evading restrictive legislation and for cloaking the real ownership of foreign balances.

The failure of the methods employed, both old and new, demonstrates the final ineffectiveness of restrictive legislation when successful evasion is so richly rewarded. Neither legal enactment nor severe penalties resulted in disclosure of assets abroad or hampered the flight of capital. We feel that this would have been true whether the Government had or had not used its best endeavors to enforce the laws and regulations.

In our opinion the only way to prevent the exodus of capital from Germany and to encourage its return is to eradicate the cause of the outward movement. Inflation must be permanently stopped. If the issue of currency is strictly confined within the true limits of national requirements on a stable basis of value, the German with capital abroad will feel assured that he will suffer no loss in bringing it home ; the speculator can no longer look for a profit from the sale of marks. We have already seen in the case of Austria how, when the currency is fairly stabilized, the necessities of foreign trade tend to bring back existing foreign balances. Restrictive legislation, which in the main has proved futile in preventing the export of capital, becomes superfluous the moment there is no longer any inducement to evade the law. It is indeed to be

feared the laws purporting to compel the return of capital would have the reverse effect to that which might be wished.

The method of securing a currency in Germany capable of maintaining a sufficiently stable international value covers the whole question of budgetary equilibrium and the establishment of a bank of issue on a sound basis. These matters, which fall outside the scope of our inquiry, have been referred by the Reparation Commission to another committee whose conclusions we have the advantage of knowing. If effect is given to their recommendations, we think that a considerable part of the German assets now in foreign countries will return in the ordinary course of trade.

While we are of opinion that special legislation to prevent the export of capital or compel its return is not required when a country's finance is on a stable basis, we recognize that in the case of Germany a period of transition must necessarily ensue before stability can be obtained and confidence restored. We suggest that during this period an amnesty should be granted for a limited time from the penalties imposed by existing enactments, and that special terms be offered for subscriptions to Government loans made in foreign currencies. Well conceived measures of this kind would be helpful in hastening the return of capital and the final restoration of financial equilibrium in Germany, conditions which are essential to the payment of reparation.

We desire to express our sincere thanks to the officers of the Reparation Commission, and to the economists, statisticians and expert accountants who

have aided us, for whose valuable assistance we are greatly indebted.

REGINALD MCKENNA, *Chairman*
HENRY M. ROBINSON
ANDRÉ LAURENT-ATTHALIN
MARIO ALBERTI
ALBERT E. JANSSEN

April 9, 1924

ANNEX

SUMMARY

- I. *Assets abroad in 1914*
- II. *Period of the war*
 - a. Surplus of imports and Germany's advances to her allies ;
 - b. Depreciation of pre-war foreign assets ; sequestration and liquidation measures ;
 - c. Profits realized by Germany in occupied territories ;
 - d. Sale of gold and German securities ;
 - e. Return from German assets abroad.
- III. *Post-war period*
 - a. Surplus of imports and cash payments made by Germany under the Peace Treaty ;
 - b. Sales to foreigners of mark credits and bank-notes ;
 - c. Sales of gold ;
 - d. Sales of German real property and German securities ;
 - e. Expenditure by foreigners traveling in Germany and by Germans traveling abroad ;
 - f. Expenditure by the armies of occupation ;
 - g. Earnings from shipping, insurance, transit, etc. ;
 - h. Income from German investments abroad and from foreign investments in Germany ; remittances made by Germans residing abroad ;

- i. German private property in ceded territories ;
- i. Foreign bank-notes in Germany.

I. ASSETS ABROAD IN 1914

The value of German assets abroad in 1914 has been estimated by different economists at sums varying between 20 and 35 milliard gold marks. Beside these unofficial estimates, two estimates of an official nature, as well as a census, have been made by the German Government. The earlier of these two official estimates is that made in 1905 by the imperial admiralty ; the later one was supplied by the German Government in 1924 in reply to a question raised by the second Committee of Experts. The census, which only covered securities, was made by the German Government during the war, in August 1916.

In the question put to the German Government the committee not only asked for an estimate of the foreign assets held by German nationals in 1914, but also requested it to submit its comments on the various estimates already made by German economists.

All these documents—estimates of German economists, and those of neutral, Allied and Associated countries, official estimates and census, and the replies of the German Government—have been examined and compared. Taking into account all the factors of valuation, the committee has come to the conclusion that the figure of 28 milliard gold marks may be accepted as representing the value of German assets abroad at the time of the declaration of war, it being understood that this figure of 28 milliards comprises only the assets abroad belonging to German nationals

residing in Germany and not those belonging to German nationals residing abroad. In this estimate securities have been taken at their face value in gold marks.

II. PERIOD OF THE WAR

(a) SURPLUS OF IMPORTS AND GERMANY'S ADVANCES TO HER ALLIES

The difficulty encountered by Germany in exporting her goods during the war, as well as her persistent endeavors to increase her imports by every possible means in order to provide for the requirements of her armies, naturally produced a surplus of imports considerably in excess of the figures of the normal pre-war deficit. To this deficit in Germany's foreign trade balance must be added the sums advanced by Germany to her allies to enable them to pay for their imports, for which she received no corresponding return. The figure indicated for these two items may be considered to be reliable and amounts to an aggregate sum of 15.2 milliard gold marks, subject to the modifications referred to in paragraph (c).

(b) DEPRECIATION OF PRE-WAR FOREIGN ASSETS ; SEQUESTRATION AND LIQUIDATION MEASURES

Various estimates of the reduction in German assets abroad during the war as a result of depreciation have been made by several economists, whose figures are generally based on an estimated total of from 20 to 25 milliard gold marks for German assets in 1914. Their estimates seem too low, if we take as

a basis the figure of 28 milliards adopted by the committee for German assets abroad in 1914. This impression is, moreover, confirmed by information which the committee has obtained by its own investigation.

It is impossible to adopt a definite figure in determining the value of the assets seized and liquidated in the Allied and Associated countries. On the basis of information obtained by the committee from the Governments of the Allied and Associated Powers as well as from Germany, the committee has been able to estimate at approximately 16·1 milliard gold marks the reduction in German assets abroad during the war, as a result of depreciation and liquidation and sequestration measures. In adopting this figure no allowance has been made for the fact that certain German assets abroad may have been utilized to cover the payment of imports, nor for the fact that German assets abroad may have increased owing to the accumulation of the interest accruing on these assets. These several items are discussed elsewhere. The above figure therefore represents a net reduction in German assets abroad for which Germany during the war period received no return. These assets underwent a further decrease in value during the period following hostilities, which decrease was taken into account.

Lastly, the committee is of opinion that both during and since the war, the category of assets in neutral countries has likewise undergone a reduction in value, and that in particular the greater part of such securities held by Germans has no longer a value equivalent to their face value, even taking into account the effect of the decline in the value of gold.

(c) PROFITS REALIZED BY GERMANY IN OCCUPIED
TERRITORIES

An examination of German economic measures taken in Belgium during the war, to which the attention of the committee was called, suggested that substantial profits had accrued to Germany from the exploitation of occupied territories. Consequently, the committee has made a careful study covering not only German operations in Belgium and northern France but also those in Poland and Rumania.

No attention has been paid to the purely military aspects of these operations, such as, for instance, requisitions intended to provide for the partial subsistence of the German occupying troops. Quite apart from such matters, however, it was found that the profits realized by Germany by requisitions and by other methods in occupied territories are closely connected with the deficit of the German balance of trade. With the help of German official documents, in particular reports by the military administration drawn up during the war and German memoranda estimating the value of war damages, the committee has ascertained that the profits realized by Germany were principally obtained as follows :

Germany obtained in occupied territories considerable quantities of commodities which, through the operation of centralized importing companies specially created for this purpose, were transported to Germany for internal consumption. Most of these goods were either not paid for at all, or were paid for in paper marks which were subsequently left in the country and amounted in the case of Belgium to 6 milliard

paper marks, or were purchased through the medium of issues of local paper currency. The special object of such issues, according to a statement by the German staff, was to enable Germany and her allies to receive goods from occupied territories free of charge during the whole period of hostilities.

By requisition or in exchange for paper marks or local currency Germany also obtained considerable quantities of the currency of invaded countries. Thus, in the north of France the German military authorities imposed on towns fines and levies for which payment was required in German money, gold coin, or notes of the Bank of France.

Finally, foreign assets were acquired by Germany, especially in Belgium and France, notably by means of sequestration of securities, coupons and other credits, and these, like the bank notes mentioned above, served in part to pay for imports from neighboring neutral countries.

It must also be pointed out that when the German Coal Centrale in Belgium issued export licenses for coal for Holland, Switzerland, or Sweden, the German authority kept for itself the foreign currency thus obtained, and forced the mines to accept paper marks.

The committee has adopted the figure of from 5.7 to 6 milliard gold marks as corresponding to that portion of the profits derived from this exploitation of Belgium, northern France, Poland, Lithuania, Rumania, etc., representing imports for which no payment was made and which, in consequence, had not been allowed for in her balance of accounts.

(d) SALE OF GOLD AND GERMAN SECURITIES

The sale of gold and securities was the principal means whereby Germany paid for her imports during the war. The export of gold, which took place mainly during the early years of the war, reached a total amount of 1 milliard gold marks.

As regards German securities, widely diverging estimates have been made of the amounts sold. In our opinion the total figure is not far from 1 milliard gold marks.

(e) RETURN FROM GERMAN ASSETS ABROAD

The revenue which Germany derived from her assets abroad was very considerably diminished immediately after the declaration of war and further reductions occurred during the period of hostilities.

It should, indeed, be noted that interest ceased to be paid on the assets held by Germany in countries with which she was at war. Some of these assets were sold during the war and the depreciation of others became very marked toward the end.

On the other hand, the industrial securities, particularly those of neutral countries, continued to pay interest at rates frequently higher than before the war.

While the committee has been unable to determine exactly the variations for each year of the war in the revenue derived from German assets abroad, it has at least been able to make an estimate which may be taken as very nearly accurate.

III. POST-WAR PERIOD

(a) SURPLUS OF IMPORTS AND CASH PAYMENTS MADE
BY GERMANY UNDER THE PEACE TREATY

One of the main causes of the reduction of German assets abroad during the post-war period arose from the necessity for Germany to cover the deficit in her trade balance and to meet the cash payments which had to be made to the Allies under the Treaty of Versailles. These two items together amount to between 9 and 10 milliard gold marks.

As already stated in the report, the figures given in the official German foreign trade statistics are quite inaccurate for certain periods. This observation applies particularly to the figures originally published.

For this reason, it was necessary to revise completely the balance given for every year. Taking into account the various factors entering into the calculation, the committee is of opinion that this revision has made it possible to reach a figure more nearly equal to the actual excess of imports than had been the case in previous reports dealing with this question. The fixing of the amount of the deficit in the trade balance is of true importance, since any valuation that is to be made of German assets remaining abroad largely depends on the figure finally adopted for that deficit.

The cash payments made by Germany to the Allies—to the Reparation Commission, under the reparation recovery act, payments to the clearing office, etc.—do not give rise to dispute.

(b) SALE TO FOREIGNERS OF MARK CREDITS AND
BANK NOTES

Germany has acquired foreign assets in large volume since the Armistice through opening credit accounts in her banks for the benefit of foreigners. These credits were paid for by the foreigners in the money or credits of other countries, and as they underwent a constant shrinkage in real value through the depreciating value of the mark, German economy profited largely from the transactions. The committee made a careful study of the values so acquired by an investigation, with the aid of expert accountants, of the mark credit balances on foreign account in the principal banks of Germany during the post-war years.

It was found that there had been during this five-year period more than a million individual accounts of this kind. In most cases the mark credits of these accounts had not been immediately utilized and had undergone a process of shrinkage through the depreciation of mark values that amounted to a veritable evaporation.

The work of the expert accountants was directed to determine as nearly as possible the aggregate amount of the shrinkages in these very numerous accounts that was due to the depreciation of the value of the mark. With this end in view, the leading banks in Germany were asked to transcribe from their books the data showing the credit balances and the amounts of debits in the accounts of all foreigners at the close of each month from the end of 1918 to the end of 1923.

After the sums indicated had been converted to gold equivalents at the current rate of exchange, it was possible to draw close inferences as to the total gains accruing to German economy as a whole. The data furnished by the banks were submitted to careful checking by the expert accountants, and it was found that they had been correctly compiled.

Credits in German marks were purchased by the citizens of a great many nations, but the largest amounts were taken by the citizens of a relatively restricted group of countries.

The methods used in determining the value of the assets acquired by the German banks in this way were subjected to an interesting check, which consisted of taking a single account of a foreigner who had engaged in speculative operations on a considerable scale and converting the figures of the transactions to a gold basis for every day on which any debit or credit entry was recorded. The results indicated that there was no tendency for this detailed method of conversion to yield results materially different from those found by the more general mass methods that it was necessary to employ in computing the figures for Germany as a whole.

When the whole inquiry, which was of considerable length, had been completed, it was found that Germany had profited by the sale of mark credits by an amount of from 7 to 8 milliards of gold marks. In addition the sale of paper marks in foreign countries had resulted in profits amounting to from 600 to 700 millions of gold marks, or a total from these two sources of 7·6 to 8·7 milliards of gold marks.

(c) SALES OF GOLD

German official statistics record sales abroad by Germany, principally in the years 1919-1921 and 1923, of gold to a total amount of $1\frac{1}{2}$ milliard gold marks. The accuracy of these figures is not disputed.

(d) SALES OF GERMAN REAL PROPERTY AND GERMAN SECURITIES

During the period characterized by the rapid depreciation of the mark, sales of real property to foreigners reached an unwonted development in Germany.

In estimating the proceeds of such sales, the committee had before it various statistics indicating in detail the number and amount of sales of real property to foreigners since the war, in some of the principal towns of Germany, and also in districts of varying economic character.

As regards securities, Germany was able during the first part of the post-war period to market some of her securities abroad, but as soon as her financial position became more uncertain most of these transactions were suspended.

In the aggregate the committee considers that sales of German real property and securities to foreigners amounted to about $1\frac{1}{2}$ milliard gold marks.

(e) EXPENDITURE BY FOREIGNERS TRAVELING IN GERMANY AND BY GERMANS TRAVELING ABROAD

During the five years which have elapsed since

the Armistice, considerable sums have been spent in Germany by large numbers of foreigners who have traveled and lived in the country. Our estimate of the expenditure by these travelers was facilitated by the official statistics kept by the largest German towns and by the special report on the subject supplied by the German Government. The committee was able to obtain a fairly exact idea of the number of foreigners who came to Germany during the period in question, the average length of their stay and the daily expenditure of each traveler.

As against this, numerous German travelers belonging mostly to the wealthier classes have stayed in foreign countries, especially in the last two or three years. Their expenditure has to be deducted from the expenditure by foreigners in Germany referred to above, and very considerably reduces the amount of the German assets realized from that source.

(f) EXPENDITURE BY ARMIES OF OCCUPATION

During the post-war period, a certain sum has been realized by Germany through the expenditure in foreign currency, or in marks bought with foreign currency, by the troops occupying German territory.

Each of the Governments having or having had armies of occupation in Germany has supplied the committee with a detailed estimate of the expenditure made by the officers and men or by the various army services. These estimates were checked in several ways by a series of calculations relating to each army's different methods. The results of these different calculations have been combined.

(g) EARNINGS FROM SHIPPING, INSURANCE, TRANSIT, ETC.

Earnings from shipping, insurance, commissions, transit, were an important source of German income prior to 1914, but during the war such earnings in great measure disappeared. In the five years 1919-1923 some of the lost ground has been regained, particularly in the field of shipping and insurance, and the committee has taken this item into account.

(h) INCOME FROM GERMAN INVESTMENTS ABROAD AND
FOREIGN INVESTMENTS IN GERMANY—REMITTANCES
MADE BY GERMANS RESIDING ABROAD

The total amount of the income produced by German assets abroad since 1919 is of course substantially below that produced by German assets abroad before the war. The assets held abroad by Germany since the war represent indeed only a small and for some part unproductive fraction of her pre-war holdings. It is true, on the other hand, that the payments which Germany has had to make since 1919 in respect of German securities held by foreigners have been inconsiderable. After a careful study of the question, the committee came to the conclusion that a set-off of the two items—income from German investments abroad and income from foreign investments in Germany—resulted in a small balance in Germany's favor for the whole of the post-war period.

The remittances sent to Germany by German nationals residing abroad and German connections and sympathizers amount to a considerable figure in Germany's favor.

(i) GERMAN PRIVATE PROPERTY IN CEDED TERRITORIES

Most of the valuations of German property abroad have taken little or no account of the value of German private property in the ceded territories of Silesia, Posen, Danzig, etc.

These properties are included in our own estimate in so far as, according to the definition adopted by the committee, they are owned by Germans residing in Germany. Although it is very difficult to determine with any precision the extent of these properties, the committee considered that it should not exclude from its valuation certain industrial assets, particularly those in Upper Silesia.

(j) FOREIGN BANK NOTES IN GERMANY

There is in Germany a large quantity of foreign bank notes (dollars, florins, Scandinavian crowns, Swiss francs, pounds sterling, and more especially in the occupied territory, Belgian and French francs). The exceptional plight of the German mark has influenced Germans in acquiring stable currencies wherever possible and on a large scale. These foreign notes have remained in the country, instead of finding their way abroad again through the normal channel of trade, as would have been the case in ordinary circumstances.

Various estimates of the total amount of such notes were made in Germany, particularly towards the end of 1923. The committee has compared the different

estimates with the information which it collected in Germany and other countries. In its opinion, the value of the foreign notes existing in Germany at the end of 1923 amounted to about 1.2 milliard gold marks.

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